UNIVERSITÀ DEGLI STUDI FIRENZE

DOTTORATO DI RICERCA IN ECONOMIA

CICLO XXVII

COORDINATORE Prof. Donato Romano

Liabilities and business relationships in internationalization. Evidences from the opening of retail stores in the fashion industry.

Settore Scientifico Disciplinare SECS-P/08

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Anni 2012/2014

A Gianni

A mamma Silvia

A Tea e Leone!

"Il rispetto nasce dalla conoscenza, e la conoscenza richiede impegno, investimento, sforzo"

Tiziano Terzani

Acknowledgements

These three years have been a life experience, hard work, research, learning, and have represented a path of personal and professional growth for which I wish to acknowledge and thank everyone who has helped me to make and complete this interesting journey.

I would like to start with my supervisor and mentor, Prof. Simone Guercini, whose guidance, advices, teachings and great human value, as well as academic, have been of great encouragement and inspiration.

Thanks to Professors who have contributed to our training and professional growth, in particular the coordinator of the PhD in Economics Prof. Donato Romano and the coordinator of the Local Development program Prof. Luciana Lazzeretti. I thank all the doctoral fellows, especially Niccolò Innocenti and Paolo Bricco, with whom we have shared joys and pains, satisfactions and effort.

A special thanks to Dr. Silvia Ranfagni, whose support and constant presence, ever since the master degree and throughout the years of doctorate, have been of great support and comfort even in times of trouble; to Dr. Andrea Runfola, for his valuable suggestions and for conveying to me such confidence and a positive spirit.

The period of visiting at the Uppsala University in Sweden has certainly been a time of great learning and growth. Fear before departure was much, satisfaction after the return even more. A special word of thanks to the Swedish collegues, especially Prof. Alexandra Waluszewski for the courage and determination that has been able to give me.

On a personal level, people who in recent years have always been there for me are many. I am most grateful to Francesca Giannotti, a collegue, friend and sister, and Antonio Petrella, colleague, friend and companion of projects and presentations!

My friends, who are my second family, and Constanza, who has always been there and always will be.

And finally, my family, the true meaning of my life. My mom: we have been through a lot in recent years, but we have always raised and we are stronger than before, ready to face the future. Tea and Leo, inseparable and loyal companions in life. And finally my Gianni, with whom I shared every moment of the last nine years and this is just the beginning of a life together.

Ringraziamenti

I tre anni di dottorato sono stati un'esperienza di vita, lavoro intenso, ricerca, apprendimento, e hanno rappresentato un percorso di crescita professionale e personale per il quale sono doverosi alcuni ringraziamenti.

In primo luogo il mio relatore, ma soprattutto maestro, Prof. Simone Guercini, la cui guida, consigli, insegnamenti e grande valore umano, oltre che accademico, sono stati di grande incoraggiamento e fonte di ispirazione.

Un ringraziamento ai Professori che in questi anni hanno contribuito alla nostra formazione e crescita professionale, in particolare il coordinatore del Dottorato in Economia Prof. Donato Romano e la coordinatrice dell'indirizzo in Sviluppo Locale Prof.ssa Luciana Lazzeretti.

Hanno contribuito allo sviluppo di questo lavoro la Dott.ssa Silvia Ranfagni, il cui supporto e presenza costante, già dai tempi della laurea magistrale e lungo tutto il dottorato, sono stati di grande supporto e conforto anche nei momenti di difficoltà; il Dott. Andrea Runfola, per i suoi suggerimenti preziosi e per avermi trasmesso tanta sicurezza e uno spirito sempre positivo.

Ringrazio tutti i compagni di corso, in particolare Niccolò Innocenti e Paolo Bricco, con i quali abbiamo condiviso gioie e dolori, soddisfazioni e tanta fatica.

Il periodo di visiting presso l'Uppsala University in Svezia ha sicuramente rappresentato un momento di grande apprendimento e crescita. La paura prima della partenza era tanta, la soddisfazione dopo il ritorno ancora di più. Ringrazio per questo i colleghi svedesi, in particolare la Prof.ssa Alexandra Waluszewski per il coraggio e determinazione che ha saputo trasmettermi.

Sul piano personale, le persone che in questi anni ci sono sempre state sono molte. Ringrazio in primo luogo Francesca Giannotti, che prima di essere una collega è un'amica e una sorella maggiore, e Antonio Petrella, collega, amico e compagno di progetti e presentazioni!

Le amiche e amici, che sono un po' la famiglia che ti scegli. Una su tutti Costanza, che sempre c'è stata e sempre ci sarà.

E infine la mia famiglia, quella allargata e quella acquisita, che mi riempiono il cuore e sono il vero senso della mia vita. Mia mamma: ne abbiamo passate tante in questi anni, fatti di cose molto brutte e altre molto belle, eppure ci siamo sempre rialzate e siamo più forti di prima, pronte ad affrontare i cambiamenti futuri che potranno solo unirci ancora di più. Tea e Leone, inseparabili e fedeli compagni di vita. E infine il mio Gianni, con il quale ho condiviso ogni momento degli ultimi 9 anni e questo è solo l'inizio di una vita insieme.

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List of abbreviations

BRIC: Brasil, Russia, India and China

CDBA: Cost of Doing Business Abroad

DOS: Directly Operated Store

EBITDA: Earnings Before Interest Taxes Depreciation and Amortization

EU: European Union

FDI: Foreign Direct Investment

IE: International Entrepreneurship

IMP: Industrial Marketing and Purchasing

INV: International New Ventures

JDT: Journal du Textile

LOF: Liability of Foreignness

LOO: Liability of Outsidership

MNC: Multinational Company

PBM: Pambianco Magazine

PD: psychic distance

SC: Supply Chain

SME: Small and Medium Enterprises

TPOS: Third-Parties Operated Stores

T/A: textile and apparel

UAE: United Arabian Emirates

WTO: World Trade Organization

Introduction

The thesis addresses the topic of liabilities and business relationships in the internationalization process of the firm. In particular, the study of liabilities and business relationships is contextualized to the internationalization of textile and clothing firms that open stores abroad. The opening of stores is a widespread phenomenon among companies in the fashion industry, but despite the pervasiveness in business practices, it is still under investigated in the literature. Moreover, it is in our opinion an element of novelty and interest the study of liabilities and dynamics at the level of business relationships in relation to the opening of stores. On one hand, the opening of stores abroad can be seen as fertile ground for the emergence of liabilities, since the firm has to do with differences and distances, whether they are national, cultural, geographic, that are recognized as liabilities in international business research and practice. On the other hand the store, as a part of the value proposition of the firm, may be a firm-specific advantage to offset the difficulties that will occur in a foreign market due to the liability-problems that a foreign company will face. In this context, business relationships might have a key role in the openings of stores, both in terms of new relationships and existing upstream and downstream relationships of the company, and in terms of impact on liabilities and the process of internationalization.

The internationalization of firms is a central theme in academic studies: many contributions over the years have analyzed this topic adopting different perspectives. Internationalization is a complex phenomenon related not only to trade and economic transactions, but also to politics, society, culture (Hirst and Thompson, 1996). The internationalization of the firm can be represented by two dimensions: geographical decentralization, in the physical sense, of business operations, and the cultural distance resulting from the diversity of contexts in which the firm operates (Guercini, 1999). Analysing the process of internationalization means considering a phenomenon that goes back in time as these processes date back to times much earlier than that of the industrial revolution and when they were mainly mercantile exchanges. At the same time it is a present phenomenon, since the internationalization processes have in recent years turned into an engine of integration and at the same time of the change of society, fuelling the pervasive phenomenon called “globalization”. In this scenario, internationalization processes are becoming more complex, and international competition more fierce. From the perspective of the firm, international business development tends to become a condition of existence and survival, regardless of size or scope of activity and the consequence is that the internationalization and globalization constitute the fundamental features of the early century and millennium. A broad definition of internationalization is the firm’s expansion outside of the home market, through multiple modes including: direct or indirect export; foreign direct investments (FDI); intermediate modes (e.g. joint ventures, licensing, franchising). However, it is difficult to provide a comprehensive definition of internationalization given the complexity of the phenomenon, that involves both large companies (multinational companies, MNCs) and small and medium sized enterprises (SMEs). Empirical studies have focused on the observable aspects of the internationalization that are international activities (Johanson and Wiedersheim-Paul, 1975). Some researchers tend to describe internationalization as the outward movement in a firm’s international operations (Piercy, 1981; Johanson and Wiedersheim-Paul, 1975). This common feature has been broadened further by considering internationalization as a sequential and orderly process of increased international involvement and the associated changes in organizational forms (Reid, 1981; Cavusgil, 1980; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977). In keeping with definitions developed in the literature, Welch and Luostarinen (1988) offered a broad framework for assessing internationalization on a number of different dimensions that would take into account the diversity of international operations. According to Welch and Luostarinen (1988), internationalization develops along six dimensions: foreign operation methods (entry mode, entry strategy) (how?), markets (where?), product (what?), personnel, organizational structure and finance. What appears clear is the strategic nature of the process of internationalization of the company, the result of choices made by the company, mainly concerning (Andersen, 1997; Jones and Coviello, 2005): the decision on whether or not to become internationally involved; the decision on which foreign market(s) to be involved in; the decision on the degree of involvement, related to entry mode choices.

Thus, in Chapter 1 we study in depth the internationalization of the firm, through a literature review of the main theoretical models on the topic. Specific attention is given to the gradual model of internationalization proposed in the 1970s by the School of Uppsala, in Sweden: this model represents one of the theoretical foundations of this work. It is a model of internationalization as a gradual process in which knowledge and learning have a central role in the development of foreign business. This conceptualization fits into the theoretical debate on internationalization at the end of the 70s, representing today one of the most influential and cited work in the field of international business. The model offers a vision of the development process of the firm in international markets in incremental steps, in which knowledge of foreign markets that accumulates in the firm, and learning by experience generate an ever-increasing investment in international activities. In addition to the concept of establishment chain, at the basis of the model there is the concept of psychic distance, coined by Beckerman in 1956. Despite starting from the contribution of Johanson and Vahlne, the psychic distance has received much attention among scholars, the theoretical development of the concept has highlighted a number of difficulties due to its conceptualization and measurement, and therefore the possibility to operationalize the construct. In addition to the problematic inherent in the concept of psychic distance, also the establishment chain has come under criticism in subsequent studies that call into question the model and its validity in the light of changes in the competitive global economy. In 2009, Johanson and Vahlne come to a gradual revision of the model, formalizing a number of reflections that have already emerged in subsequent work to that of 1977 by the same authors (Johanson and Vahlne, 1990, 2003). In the review of the model, the study of internationalization according to an incremental logic is integrated into the network perspective, in which the foreign market is conceived as a set of actors in relation to each other, with which the firm must be able to establish relationships in order to operate effectively in foreign markets. It is therefore relevant the role of relationships with other actors in order to understand the process of internationalization of the firm, a process in which, in a network perspective, the barriers posed by national borders seem to take a secondary position with respect to the difficulty of building relationships with actors in the business network. The integration of the two perspectives is presented, giving space to the first major contribution in this sense, namely the contribution of Johanson and Mattsson (1988) that describes internationalization as a gradual development of new positions in the network of relationships of the firm. There are numerous subsequent contributions that analyse the relation between the network perspective and internationalization, while not leading to a coherent vision on the subject. Johanson and Kao (2012), in their review of literature on internationalization and networks of the previous twenty years, highlight some critical aspects, primarily the lack of a unified vision on the concept of network applied in different studies, and a poor conceptualization of network and relationships. In addition, the concept of relationship adopted is primarily related with business actors, lacking in this sense an exploration of relationships with non-business actors, such as institutions. Among other problems, there is a lack of investigation into the structure of the network and its temporal dimension, and the focus is limited to the stage of entry into international markets and export activities, ignoring other activities such as sourcing.

The revisited Uppsala model is thus developed in this complex scenario, and in the light of the contributions given by the Industrial Marketing and Purchasing Group (IMP) on business network and interaction among actors, that is one of the theoretical roots of the thesis. In developing this model, the authors discuss the difficulties in the process of internationalization in terms of the shift from the liability of foreignness to the liability of outsidership, where the first is linked to the concept of psychic distance and the second has to do with networks and relationships. The liability of foreignness is a concept found in the literature of international business from the contribution of Hymer (1976) that, with reference to MNCs, introduces the “cost of doing business abroad”. In 1995 Zaheer is the first to use the term “liability of foreignness”. The theoretical debate on the topic is broad, and includes criticism on the relationship between cost of doing business abroad and liability of foreignness, the definition and measurement of the latter as well as the emergence of other liabilities not to be confused with the foreignness, such as newness and smallness. The liabilty of outsidership, is quite a new concept introduced by Johanson and Vahlne in their 2009 model, and has attracted interest both with respect to MNCs and SMEs. In the light of what has been discussed, the theoretical foundations of the research are: the Uppsala internationalization process model and its evolution, from an incremental process to a business network view of the internationalization process; liabilities in internationalization, specifically foreignness and outsidership; the IMP perspective, in particular the definition of business network and the interaction approach.

In Chapter 2, we outline the empirical context of the research, the research framework and research questions. The empirical context of this work is represented by the textile and apparel sector (t/a), characterized by increasing internationalization and complexity. In particular, the removal of all import quotas in the textile and clothing industry from January 2005, involving the unrestricted access of all members of the World Trade Organization (WTO) to the European, American and Canadian markets is considered a key driving force in the development of the clothing sector. This new scenario has created opportunities for large exporters like China and India that are considerably increasing their market share whilst at the same time creating challenges for European Union member states in order to remain competitive internationally. In this scenario of increasing internationalization, the European textile and clothing industry is characterised by fragmented production with a large number of small and medium-sized companies mainly located in Italy, UK, France, Germany and Spain. Fashion companies are becoming more flexible and vertically organised, combining manufacturing and retailing competencies.

Within this background, our aim is to analyse some aspects of the internationalization of firms in the fashion system that decide to open stores as entry mode strategy in foreign markets. Studies on entry mode strategies have tended to focus on aspects of particular entry modes such as mergers and acquisitions (Wrigley, 1997), joint ventures (Palmer and Owens, 2006) and franchising (Quinn, 1998, 1999; Quinn and Doherty, 2000; Doherty and

Alexander, 2006; Doherty 2007a, 2009). Moreover, Fernie et al. (1997, 1998) and Moore et al. (2000) focus on the luxury/designer fashion sector and they show how fundamental stores, in particular flagship stores, are to the international development of this sector. The theme of stores opening is central to a large and growing number of firms in the fashion system (clothing, but also to other sectors), and recent researches on the fashion system has showed the fundamental role of a direct distribution channel to overcome traditional commercial intermediaries and to penetrate new geographic markets, in particular those characterized by high growth rates of consumption. Each store plays also an important role in the international retailing also from a learning point of view because of its embeddedness in local cultures and consumption habits. Each retail store is potentially an autonomous centre of innovation, embedded in and necessarily shaped by a unique place (Currah and Wrigley, 2004). Despite the by-now many years of literature contributions aiming to shed light on various aspects of the internationalization of firms, little attention has been focused on the retail development of firms, especially with regard to the manufacturing sector. As underscored by Hutchinson et al. (2009), in the literature that has dealt with the internationalization of retail businesses, most studies have focused mainly on the foreign development of large, rather than small, retailers. In addition to the central role of retailers in t/a, we must not forget that there is a large number of manufacturing firms that develop a significant presence in retail, using the store as a way of affirming the brand image both nationally and internationally (Runfola, 2012). The opening of directly managed stores seems to be a particularly widespread strategy today in textiles and apparel, and is favoured not only by firms whose origins lie in the apparel manufacturing but also by operators who entered the market via the route of the production of semi-finished textile products. Furthermore, the opening of directly owned stores has proven to be a successful development strategy for firms that already have a network, either of their own or affiliated, and this strategy has resulted in massive investments, which at times have led to greater emphasis on control through ownership rather than affiliation. The empirical research, in particular in the Italian fashion system, carried on by the author and other researchers in the field, has shown that the opening of stores falls deeper and deeper into the practices of companies: in this sense, there is a gap between the business practice and the literature on the topic, and this makes the phenomenon of stores opening significant and worthy of investigation. Moreover, the internationalization process through stores opening has been studied (Guercini and Runfola, 2014; Hutchinson et al. 2009) by the authors, resulting in findings that highlight the advisability of formulating a research framework for this phenomenon, which seems to have attracted little attention in the international business literature. Following this line of reasoning, Chapter 2 covers three main aspects of the thesis: the empirical context, the research framework and research questions, the methodology used in the thesis. In particular, we focus on: the literature on retail internationalization; the internationalization of fashion retailing, since this is the specific object of the thesis and fashion retailers are consistently recognized as the most prolific of international retailers, being in this sense worthy of further investigation; vertical integration in the textile and apparel sector, specifically integration processes between manufacturing and retailing, in which one may find situations that involve integration from upstream to downstream and/or forms of external rather than internal growth; a taxonomy of categories of international fashion retailers and retail formats. The phenomena highlighted and the definitions given, as well as the study of literature did in the first chapter, let us at this point to build a research framework that combine the theoretical platform of the research and the empirical context consisting of the phenomenon of stores opening abroad, and to formulate research questions. The framework relates liabilities in internationalization and stores opening, first in the context of the process of internationalization of firms described in terms of psychic distance and business network, as in the revisited version of the Uppsala model of 2009; on the other hand, in the context of business relationships and interaction, according to the IMP perspective. The model proposes the study of stores opening in relation to liabilities in internationalization, in accordance with a circular view: the opening of retail outlets can be seen as fertile ground for the emergence of liabilities, in particular foreignness and outsidership, which can make the operation difficult if not impossible to implement; the opening of retail outlets, where successfully implemented, can both be a way to overcome these liabilities, helping to continue the process of internationalization. The model also examines business relationships, noting that these have a key role in the openings of stores, both in terms of new relationships that may arise and be the determinant of the decision to open a store, and in terms of impact on the existing upstream and downstream relationships of the company, such as relationships with suppliers and other business partners. The idea of studying the opening of stores – as a complex phenomenon in its entirety that impacts on the development of the company and involves the decision makers, regardless of the retail format chosen and the type of ownership and management – in a perspective of business relationships and interaction with new and existing actors is new and poorly investigated in the literature, with few exceptions that anyhow adopt different perspectives than ours. The model therefore offers a new interpretation of the phenomenon of stores opening, in a perspective of business relationships and interactions among actors in domestic and foreign markets. Business relationships themselves can assist the process of international expansion through stores opening, with a possible impact on the liabilities inherent in the process. The model in this sense is circular in nature. The chapter ends with the methodological review and research strategy, stating the qualitative methodology adopted in the thesis, which is the case analysis; we delineate the main characteristics and possible limits of the methodology used and contextualize the use of this methodology in a business network view, highlighting the difficulties and tools available to the researcher. The research strategy adopted in the thesis consists of two phases: a secondary research and a case analysis of stores opening of fashion firms. More precisely, the first phase is represented by a secondary research which provides the examination of news related to stores opening in foreign countries by fashion brands in the period 2011-2013. The aim of this exploratory study is to produce a database in which to detect, for each opening: the date of realization; the firm/brand associated with the operation; the country/city in which the openings are made; the number of stores; the type of format; some notes on the operation. In the second phase of the research we proposed a multiple case study of luxury/fashion firms that have opened stores in foreign countries.

In Chapter 3, we present some reflections on the international expansion of firms through the opening of retail stores in foreign countries. We analyse the database containing openings of retail stores in the 2011-2013 period, thus providing empirical evidence on the size and scope of the phenomenon. In the research we investigate the characteristics of the operations on the stores, made by firms in the t/a sector as entry mode into foreign countries, with a specific focus on Italian fashion companies. What emerges from our analysis is the growing importance of emerging countries not only with respect to the supply side (resource seeking perspective) but as increasingly profitable markets (market seeking perspective); the evolution followed by the brand that is no longer tied to single products but, rather, to a complex system where the store has a central position, with the consequent importance covered by retailing competences; the phenomena of integration that affect both industrial and retail firms, associated with investments on the universe of the brand; the importance assumed by the opening of stores as a development tool of the firm's presence in foreign markets, for all types of companies in the fashion industry, from large retailers to SMEs manufacturing firms.

In Chapter 4 we present the case analysis, with three cases from the Italian fashion system. The cases have been chosen following some selection criteria: firms with a long textile/clothing tradition; firms involved in a process of internationalization over the years; firms that have opened stores abroad in the last five years; availability/will of the entrepreneur and managers to be interviewed. The three cases selected are: (1) Luisa Spagnoli, a company in the women's clothing industry founded in 1928 and still family owned; (2) Stefano Ricci, that produces and sells luxury men's clothing; (3) Gruppo Sartoriale International, a small company that sells men's clothing with the brand Montezemolo. The aim of the case analysis is to provide a deeper understanding of the three main topics of the thesis, liabilities in internationalization, business relationships and stores opening, in order to answer to the research questions and contribute to the theoretical development of the constructs and phenomena under study. The thesis concludes with a discussion of the main findings, limits and future research agenda.

CHAPTER 1. THEORETICAL BACKGROUD OF THE RESEARCH

1.1 On the internationalization of the firm

The internationalization of firms is a central theme in academic studies: many contributions over the years have analyzed this topic adopting different perspectives. Internationalization is a complex phenomenon related not only to trade and economic transactions, but also to politics, society, culture (Nanut and Tracogna, 2011). The internationalization of the firm can be represented by two dimensions: geographical decentralization, in the physical sense, of business operations, and the cultural distance resulting from the diversity of contexts in which the firm operates (Guercini, 2012). Analysing the process of internationalization means considering a phenomenon that goes back in time as these processes date back to times much earlier than that of the industrial revolution and when they were mainly mercantile exchanges. At the same time it is a present phenomenon, since the internationalization processes have in recent years turned into an engine of integration and at the same time of the change of society, fuelling the pervasive phenomenon called "globalization" (Hirst and Thompson, 1996). From the perspective of the firm, international business development tends to become a condition of existence and survival, regardless of size or scope of activity and the consequence is that the internationalization and globalization constitute the fundamental features of the early century and millennium. A broad definition of internationalization is the firm's expansion outside of the home market, through multiple modes including: direct or indirect export; foreign direct investments (FDI); intermediate modes (e.g. joint ventures, licensing, franchising). However, it is difficult to provide a comprehensive definition of internationalization given the complexity of the phenomenon, that involves both large companies (multinational companies, MNCs) and small and medium sized enterprises (SMEs). Empirical studies have focused on the observable aspects of the internationalization that are international activities (Johanson and Wiedersheim, 1975). Some researchers tend to describe internationalization as the outward movement in a firm's international operations (Turnbull, 1985; Piercy, 1981; Johanson and Wiedersheim, 1975). This common feature has been broadened further by considering internationalization as a sequential and orderly process of increased international involvement and the associated changes in organizational forms (Reid, 1981; Cavusgil, 1980; Bilkey and Tesar, 1977; Johanson and Vahlne, 1977). In keeping with definitions developed in the literature, Welch and Luostarinen (1988) offered a broad framework for assessing internationalization on a number of different dimensions that would take into account the diversity of international operations. According to Welch and Luostarinen (1988), internationalization develops along six dimensions: foreign operation methods (entry mode, entry strategy) (how?), markets (where?), product (what?), personnel, organizational structure and finance. What appears clear is the strategic nature of the process of internationalization of the company, the result of choices made by the company, mainly concerning (Andersen, 1997; Jones and Coviello, 2005): the decision on whether or not to become internationally involved; the decision on which foreign market(s) to be involved in; the decision on the degree of involvement, related to entry mode choices.

The aim of the chapter is to study in depth the internationalization of the firm, through a literature review of the main theoretical models on the topic. Specific attention is given to the gradual model of internationalization proposed in the 1970s by the School of Uppsala, in Sweden: this model represents one of the theoretical foundations of this work. The chapter is structured as follows: next paragraph consists of a brief overview of main theoretical perspectives on internationalization, namely the economic, behavioural, relational and entrepreneurial perspectives. In the third section, the Uppsala model of internationalization is presented (Johanson and Vahlne, 1977). It is a model of internationalization as a gradual process in which knowledge and learning have a central role in the development of foreign business. This conceptualization fits into the theoretical debate on internationalization at the end of the 70s, representing today one of the most influential and cited work in the field of international business. The model offers a vision of the development process of the firm in international markets in incremental steps, in which knowledge of foreign markets that accumulates in the firm, and learning by experience generate an ever-increasing investment in international activities. In addition to the concept of establishment chain, at the basis of the model there is the concept of psychic distance, coined by Beckerman in 1956. Despite starting from the contribution of Johanson and Vahlne, the psychic distance has received much attention among scholars, the theoretical development of the concept has highlighted a number of difficulties due to its conceptualization and measurement, and therefore the possibility to operationalize the construct. In addition to the problematic inherent in the concept of psychic distance, also the establishment chain has come under criticism in subsequent studies that call into question the model and its validity in the light of changes in the competitive global economy. In 2009, Johanson and Vahlne come to a gradual revision of the model, formalizing a number of reflections that have already emerged in subsequent work to that of 1977 by the same authors (Johanson and Vahlne, 1990, 2003). In the review of the model, the study of internationalization according to an incremental logic is integrated into the network perspective, in which the foreign market is conceived as a set of actors in relation to each other, with which the firm must be able to establish relationships in order to operate effectively in foreign markets. It is therefore relevant the role of relationships with other actors in order to understand the process of internationalization of the firm, a process in which, in a network perspective, the barriers posed by national borders seem to take a secondary position with respect to the difficulty of building relationships with actors in the business network. In the fourth section, the integration of the two perspectives is presented, giving space to the first major contribution in this sense, namely the contribution of Johanson and Mattsson (1988) that describes internationalization as a gradual development of new positions in the network of relationships of the firm. There are numerous subsequent contributions that analyse the relation between the network perspective and internationalization, while not leading to a coherent vision on the subject. Johanson and Kao (2012), in their review of literature on internationalization and networks of the previous twenty years, highlight some critical aspects, primarily the lack of a unified vision on the concept of network applied in different studies, and a poor conceptualization of network and relationships. In addition, the concept of relationship adopted is primarily related with business actors, lacking in this sense an exploration of relationships with non-business actors, such as institutions. Among other problems, there is a lack of investigation into the structure of the network and its temporal dimension, and the focus is limited to the stage of entry into international markets and export activities, ignoring other activities such as sourcing.

The revisited Uppsala model is thus developed in this complex scenario. Section 5 is dedicated to the presentation of the business network internationalization process model (Johanson and Vahlne, 2009), highlighting the contents and the main differences compared to the 1977 version of the model. In developing this model, the authors discuss the difficulties in the process of internationalization in terms of the shift from the liability of foreignness to the liability of outsidership, where the first is linked to the concept of psychic distance and the second has to do with networks and relationships. The liabilities in internationalization are a key element of this work, widely analyzed in paragraphs 1.6 and 1.7. The liability of foreignness is a concept found in the literature of international business from the contribution of Hymer (1976) that, with reference to MNCs, introduces the "cost of doing business abroad". In 1995 Zaheer is the first to use the term "liability of foreignness". The theoretical debate on the topic is broad, and includes criticism on the relationship between cost of doing business abroad and liability of foreignness, the definition and measurement of the latter as well as the emergence of other liabilities not to be confused with the foreignness, such as newness and smallness. The liabilty of outsidership, is quite a new concept introduced by Johanson and Vahlne in their 2009 model, and has attracted interest both with respect to MNCs and SMEs.

Finally, in the chapter, it is mentioned several times the contribution of the Industrial Marketing and Purchasing Group (IMP Group) on business networks and interaction, which is one of the theoretical roots for the revision of the model of the school of Uppsala, as well as an additional conceptual platform of this work. The chapter ends with a brief review of the IMP approach with the aim of understanding the perspective of analysis and the underlying models.

1.2 Main theoretical perspectives on internationalization

International activities of firms have been of interest for international business researchers for a long time, and it is still an expanding field of research. Theories on this issue follow four main theoretical perspectives. These are (1) the economic perspective, including theories of the multinational firm and foreign direct investments (FDI), where most studies aim to explain the phenomenon of international trade and the international production of MNCs (e.g., Hymer, 1976; Dunning, 1980, 1993); (2) the behavioural perspective covering internationalization process theories, viewing internationalization as an incremental process focused on learning and commitment, as a series of sequential stages that the firm runs in its development in foreign markets (e.g., Cavusgil, 1980; Johanson and Vahlne, 1977); (3) the relational perspective within network theory, where internationalization is a process of initiating, developing and sustaining relationships in order to establish a position in a foreign market network (e.g., Ford et al., 2003; Johanson and Mattsson, 1988); and (4) the entrepreneurial perspective on born global firms, based on smaller, rapidly internationalizing firms, also known as international entrepreneurship theory (e.g., Knight and Cavusgil, 1996; Oviatt and McDougall, 1994).

The economic perspective has long examined internationalization explaining the dynamics and drivers of two main and quantifiable dimensions of internationalization of national economies: international trade and FDI. This perspective origins from economic-based international trade theories where some early contributions were made through classic works of the economists Smith in 1776 on absolute advantage; Ricardo in 1817 on comparative advantage; and Heckscher and Ohlin in 1933 on factor proportions (Guercini, 2012). However, these theories offer a national level view based on aggregated data, thus it does not concern
any individual firms and their behaviour. Following theories, developed in the 1950s and onward, have focused on international expansion of firms through studying FDI of MNCs, such as the industrial organization theory by Hymer (1976); the process theory of FDI, also known as the product life cycle model, by Vernon (1966); the internalization theory by Buckley and Casson (1976); and

later also the eclectic paradigm developed by Dunning (1980; 1993). In particular, the industrial organization theory, developed in order to explain the wide spread of the US multinationals, is considered by many scholars at the base of the present theory of MNCs (Kindleberger, 1969). Hymer aims to explain the reasons why companies decide to implement FDI to transfer production to other countries, rather than keep it in the country of origin and take advantage of export flows. The approach of Hymer examines the ownership of a competitive advantage that leads to monopoly control of the market as the motivation of FDI. While not giving explanations concerning the factors underlying competitive advantage, Hymer's contribution is significant as the American scholar changes the perspective of the theory of reference with respect to previous contributions, as it places the focus on the firm and its choices more than the national context and the industrial context of a country. A further step in the evolution of studies on the processes of internationalization consists in the development of the eclectic paradigm by Dunning (1983) that aims to explain international production of the multinational corporation, providing an intersection between macroeconomic international trade theory and microeconomic theory of the firm (Dunning, 1993). The eclectic paradigm is also known as the OLI framework based on the ownership, location and internalization advantages of a firm. Determining these advantages, the model answers why, how and where FDI should be undertaken.

As an opposition to the economic theories and perspectives, a behavioural stream was developed focusing on the firm and its process of internationalization. These models build on the behavioural theory of the firm (Cyert and March, 1963) and the growth theory of the firm (Penrose, 1959). The first and most influential process model is the Uppsala model of internationalization (Johanson and Vahlne, 1977), also known as the U-model (Andersen, 1993). It describes the internationalization process of the firm as a "*gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets*" (Johanson and Vahlne, 1977, p. 23). Other process models have been developed by Bilkey and Tesar (1977), Cavusgil (1980), Reid (1981), and Czinkota (1982), also known as the I-models because they view internationalization as an act of innovation (Andersen, 1993). The advantages of the process models are that they are dynamic in nature and have gained empirical and theoretical support (Björkman and Forsgren, 2000; Johanson and Vahlne, 1990).

The relational perspective draws partly on behavioral theory, since it emerged from the Uppsala school discussed above, and partly on inter-organizational theory departing from sociology. From a network approach to internationalization, internationalization is viewed as a process of initiating, developing and sustaining international relationships. Through this the firm is able to establish a position in a foreign market network (Johanson and Mattsson, 1988). According to Coviello and McAuley (1999, p. 227), this perspective holds that "*internationalization depends on an organization's set of network relationships rather than on a firm-specific advantage*". Johanson and Mattsson (1988) argue that the strength of the network approach is that it is explains the development process rather than the existence of the international firm. It has received much empirical support but does not stand without limitations. For example, it has been criticized for being too descriptive and holistic, and thus limited in its usefulness in understanding the internationalization pattern of firms (Björkman and Forsgren, 2000).

Finally, international entrepreneurship (IE) is an intersection of two research paths, namely entrepreneurship and international business (McDougall and Oviatt, 2000). IE was the result of research identifying small, high-tech firms which did not follow the traditionally suggested stages of internationalization. During the 1980's several studies documented the existence of firms which were internationally oriented right from the birth. These firms represented a type of firms that, due to their high-tech product, may have to be international right from the beginning. Oviatt and McDougall (1994), setting the theoretical groundwork for IE, labelled this type of firms International New Ventures (INV), defined as firms that right from the birth seeks a competitive advantage by using resources from several countries and by selling its products in several countries. In Knight and Cavusgil (1996), the term Born Global was discussed for the first time in a scholarly publication.

1.3 The Uppsala model of internationalization

Among the managerial contributions within the behavioural perspective, that have dealt with the internationalization of the firm, there are models that describe internationalization in a process-base view. The model that was proposed in the 70s by the Swedish Uppsala school (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977) is one of the most important process models and it is one of the theoretical basis of this work. The model has given rise to a still existing debate, and explains the process of internationalization of the individual firm focusing on the role of learning and knowledge as a basis for the foreign development of the firm. The model of the Swedish school is descended from behavioral theories (Cyert and March, 1963) that consider the firm as an active player in the process of internationalization.

Before describing in detail the model, the main differences between the above-mentioned Swedish model and other process theories on internationalization are highlighted. A contribution in this direction is provided by Andersen (1993) that compares the Uppsala model (U-Model) with other process models that address the individual firm's internationalization process focusing on innovation. These are the so-called Innovation-Related Internationalization Models (I-Models), namely models developed by Bilkey and Tesar (1977), Czinkota (1982), Cavusgil (1980) and Reid (1981) that explain the internationalization process from an innovation-related perspective and focus on the learning sequence in connection with adopting an innovation. In other words, the internationalization decision is considered as an innovation for the firm, drawing on the process of adoption of innovation proposed by Rogers (1962). The main differences of the four models are in the number of stages and the description of each stage. Although the number of stages varies in different papers, the authors agree that each new step represents more experience/involvement than the earlier stages. Unlike the U-model, the authors belonging to this stream demonstrate that several other important factors, actors and forces impact internationalization besides knowledge. For instance, the initial decision to start exporting could be taken in the headquarters as a result of a global marketing decision and sales might be organized through its global marketing network (Wiedersheim-Paul et al., 1978).

Even in these models, as in that of Uppsala, knowledge plays a central role for the internationalizing firm, but the main differences between the models are to be formed in the subdivision in phases: on one hand the U-Model is dynamic in nature and based on learning, on the other hand the I-Models interpret the internationalization as a rather rigid transition from one phase to another. The author states that:

"Both the U-models and the I-models can properly be regarded as behaviourally oriented. Based on the arguments by the authors, the gradual pattern of the internationalization process can mainly be attributed to two reasons: (1) The lack of knowledge by the firm, especially "experiential knowledge," and (2) Uncertainty associated with the decision to internationalize. The arguments for the gradual pattern are discussed in length in the article of Johanson and Vahlne [1977]. The other authors explicitly or implicitly build on Johanson and Vahlne's contribution." (Andersen, 1993, p.212)

The original contribution of the Uppsala internationalization process model is developed in the 1970s since the studies of researchers in the School of Uppsala in Sweden. Based on empirical research aimed at understanding how firms approach foreign markets, the gradual model seeks to offer an alternative route to the traditional economic perspective of the internationalization, which until then were dominant. The model is full legitimated in the contribution of Johanson and Vahlne (1977) in the Journal of International Business Studies, which still represents one of the most cited and influential work in the study on the internationalization of the firm. The model emphasized a gradual and incremental approach to internationalization with the underlying assumptions of uncertainty and bounded rationality. It states the gradual nature of the internationalization process, in which the firm develops in foreign markets in incremental steps, moving from lower investment phases to phases in which the presence in foreign markets is more pronounced. In particular, knowledge of international markets has a central role, and its accumulation within the firm generates an increasing investment in international activities. The topic of learning is explained as "experiential learning".

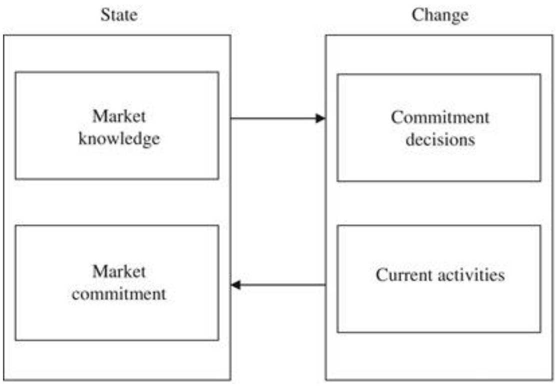
The study made by Johanson and Vahlne is based on four case studies of the Swedish companies Volvo, Sandvik, Atlas Copco and Facit, with operations in more than 20 countries. In particular, the model explains the gradual steps made by firms in their internationalization process as a learning process, in which market knowledge enforce commitment decisions, and where the current activities of a firm affects the market commitment. According to the model, internationalization frequently starts in foreign markets close to the local market in terms of psychic distance. The psychic distance is in turn defined as the factors that affect the difficulty of understanding a foreign environment, including factors such as culture, politics, language, educational systems. This approach to internationalization considers the perspective of the single firm assuming that firms tend to incrementally overcome the psychic distance through gradual learning processes (Johanson and Wiedersheim-Paul, 1975). Companies would gradually enter others markets further away, as the uncertainties are cleared and knowledge is developed. The difficulties with the internationalization and entries in new countries have been discussed in the context of the liability of foreignness (Johanson and Vahlne, 2009) that is to say firms doing business abroad have to face problems arising from the unfamiliarity of the environment, from cultural, political, and economic differences, and from the need for coordination across geographic distance, among other factors; a greater psychic distance implicates a higher degree of liability of foreignness. With the assumption of incrementalism, the model predicts that the basic pattern of firms' internationalization is: to start and continue to invest in just one or in a few neighbouring countries, rather than to invest in several countries simultaneously; and that the investments in a specific country are carried out cautiously, sequentially and concurrently with the learning of the firm's people operating in that market. Firms are supposed to enter new markets with successively greater psychic distance and the market investments develop according to the so-called establishment chain.

The underlying categories of the model are therefore those of psychic distance and establishment chain. We refer to the following section for in-depth analysis of the concept of psychic distance, and here we focus on the concept of establishment chain, used to highlight the gradual investment within a market. The establishment chain highlights the gradual shift of activities in the foreign market: from indirect export through the use of agents, to the presence of branches on the foreign market, until foreign direct investment (FDI). In particular, at the start no regular export activities are performed in the market, then export takes place via independent representatives, later through a sales subsidiary, and eventually manufacturing may follow. In terms of the process model, this sequence of stages indicates an increasing commitment of resources to the market. According to Forsgren (2002) the incrementalism can be interpreted as a gradual process of learning and knowledge gaining according to a logic of learning by doing, since "*current activities are also the prime source of experience*" (Johanson and Vahlne, 1977, p.28). The more knowledge of the market acquires the firm, the lower the perceived risk and therefore the greater the investment in the foreign market. According to Hadjikhani (1997), this process generates intangible commitment, in the sense that the resources of the firm become more closely linked to the international market.

Johanson and Vahlne (1990) suggested that there are three exceptions to their model of incremental market commitment as a response to increase market knowledge: when firms have larger resources they may make larger internationalization steps; when market conditions are stable and homogeneous, relevant market knowledge can be gained in ways other than through experience; when the firm has considerable experience from markets with similar conditions, it may be possible to generalise this experience to the specific market.

On the basis of the concepts of psychic distance and establishment chain, the authors describe the internationalization process as the result of the two different mechanisms of state and change. The two state aspects are resources committed to foreign markets – market commitment – and knowledge about foreign markets possessed by the firm at a given point of time. The change aspects are current activities and decisions to commit resources to foreign operations. Building on current activities, the development of knowledge of foreign markets and operations will reduce the level of uncertainty about these markets, and thus drive an increasing commitment of resources to the development of these markets. In other words, market knowledge and market commitment are assumed to affect decisions regarding commitment of resources to foreign markets and the way current activities are performed. Market knowledge and market commitment are, in turn, affected by current activities and commitment decisions, and the process is seen as a causal cycle (Johanson and Vahlne, 1990) (Figure 1):

Fig. 1: The basic mechanism of internationalization – State and change aspects



Source: Johanson and Vahlne (1977)

The first state aspect, market commitment, is composed of two factors: the amount of resources committed and the degree of commitment, that is defined as the difficulty of finding an alternative use for the resources and transferring them to it. Resources located in a particular market area can often be considered a commitment to that market. The degree of commitment is higher the more the resources in question are integrated with other parts of the firm and their value is derived from these integrated activities, and the more specialized the resources are to the specific market the greater is the degree of commitment. The amount of resources committed is close to the size of the investment in the market, using this concept in a broad sense, including investment in marketing, organization, personnel, and other areas. The second state aspect is market knowledge, that refers to the amount of information and knowledge possessed by the firm about the foreign market. Following Penrose (1959), two kinds of knowledge are distinguished: objective knowledge which can be taught, and experiential knowledge which can only be acquired through personal experience. A critical assumption of the model is that market knowledge, including perceptions of market opportunities and problems, is acquired primarily through experience from current business activities in the market. Experiential market knowledge generates business opportunities and is consequently a driving force in the internationalization process. But experiential knowledge is also assumed to be the primary way of reducing market uncertainty. Thus the firm can be expected to make stronger resource commitments incrementally, in a specific country, as it gains experience from current activities in the market. Change aspects are the results of the state aspects. Once the firm know about the market they can decide the way to commit to that market, and will therefore be able to plan and execute the current activities needed to complete the cycle.

1.3.1 Psychic distance: conceptualization and critical review

The concepts of psychic distance and its close relative cultural distance have come to occupy central roles in international business research. The psychic distance has also a central role in the internationalization process described by the school of Uppsala. In this paragraph we provide a definition of the concept through a literature review on the topic, we highlight the critical issues related to measuring and finally we analyse it with respect to the concept of cultural distance. In the original conceptualization psychic distance is defined as the subjectively perceived distance to a given foreign country. This definition is not only consistent with the semantic origins of the term (the word "psychic" is derived from the Greek word psychikos, meaning "soul", and it refers to the cognitive and moral capabilities of the mind), but is also in line with recent authors (Dow, 2000; Dow and Karunaratna, 2006; Sousa and Bradley, 2005; Stöttinger and Schlegelmilch, 1998), for whom psychic distance refers to individuals' or collectives' perceptions of foreign countries. The psychic distance to a specific foreign country is a reflection of the perceiver's knowledge, familiarity and sense of understanding of it (Dow and Karunaratna, 2006).

The concept of psychic distance was introduced into the literature by Beckerman (1956), speculating on trade patterns and the role of psychic distance for the observed tendency of countries to concentrate on nearby countries. This can be explained not only by economic distance (factors such as geographical distance, transportation costs and tariffs), but also by psychic distance:

“a special problem is posed by the existence of “psychic distance”. It is probable that the manner in which the purchases of raw materials by a firm are distributed geographically will depend on the extent to which foreign sources have been personally contacted and cultivated. While the transport costs paid (directly or indirectly) by an Italian entrepreneur on a raw material supplied by Turkey may be no greater (as the material may come by sea) than the same material supplied by Switzerland, he is more likely to have contacts with Swiss suppliers, since Switzerland will be “nearer” to him in a psychic evaluation (fewer language difficulties, and so on), as well as in the economic sense that air travel will absorb less of his time.” (Beckerman, 1956, p.38)

The concept has been introduced to the international business community by the group of scholars at Uppsala University, as mentioned in the previous paragraph, studying the inetrnationalization process of the firm (Johanson and Vahlne, 1977; Johanson and Wiedersheim-Paul, 1975). study by Johanson and Wiedersheim-Paul (1975). Since then, research examining the effects of psychic distance has become one of the most important streams of work within the international business domain (Child et al., 2009; Dow, 2000; Dow and Karunaratna, 2006; Evans and Mavondo, 2002; Nordstrom and Vahlne, 1994; O’Grady and Lane, 1996; Sousa and Bradley, 2006; Stottinger and Schlegelmilch, 1998). Johanson and Wiedersheim-Paul (1975, p.308) define psychic distance as those “factors preventing or disturbing flows of information between firm and market”. Differences in language and business practices incur learning costs, so that internationally expanding firms have an economic incentive to enter known, or psychically similar, markets in the early stages of internationalization. Nordstrom and Vahlne (1994) subsequently redefine psychic distance as “factors preventing or disturbing firm’s learning about and understanding a foreign environment” (p. 42). This refinement is justified on the basis that learning and understanding, rather than the mere access to information, are essential in the development of appropriate operating strategies in foreign markets. O’Grady and Lane (1996) further refine the definition of psychic distance by incorporating the consequence of such learning and by specifying the factors that impede learning. Thus, psychic distance is defined as “..a firm’s degree of uncertainty about a foreign market resulting from cultural differences and other business difficulties that present barriers to learning about the market and operating there" (O'Grady and Lane, 1996, p. 330).

While the continuous redefinition of psychic distance has resulted in a deeper understanding of the concept, these contributions introduce an ambiguity regarding the meaning of psychic distance that has survived unto this date (Evans, Treadgold and Mavondo, 2000; Sousa and Bradley, 2005, 2006; Håkanson and Ambos, 2010; Ellis, 2008). Psychic refers to the mind or soul. Thus, it is not the simple presence of external environmental factors, as identified by Vahlne and Wiedersheim-Paul (1973), Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977), Nordstrom and Vahlne (1994) and O'Grady and Lane (1996), that determines the degree of psychic distance. Rather, it is the mind's processing, in terms of perception and understanding, of cultural and business differences which forms the basis of psychic distance (Evans and Mavondo, 2002). Therefore, definitions of perceived PD must involve the notion of "perception" because it differentiates between objective and subjective (or perceived) psychic distance. However, the various proposed definitions show little consensus among researchers (Prime et al., 2009). Perception is included, for example, in Lee's (1998) definition of cultural distance, which is treated as synonymous with psychic distance. Cultural distance is defined as "*international marketer's perceived socio-cultural distance between the home and target country in terms of language, business practices, legal and political systems and marketing infrastructure*" (Lee, 1998, p. 9). A further ambiguous aspect of the concept of psychic distance is the degree of symmetry assumed or implied. The question of symmetry never attracted a great deal of attention, probably because most studies involved the computation of psychic distances from a single focal country. However, as Shenkar (2001) has pointed out, there are good reasons to believe that psychic distances are not symmetrical, that is to say that the perceived distances from A to B and from B to A are not necessarily equal. Indeed, as a number of studies confirm, measures of perceived distances based on respondents judgments as to the degree of similarity between home and target countries produce asymmetry whenever more than one source is involved (Brock et al., 2008; Ellis, 2008; Dow, 2000; Stöttinger and Schlegelmilch, 1998).

With reference to operationalization issues, several authors (Lee, 1998; O'Grady and Lane, 1996) outline the need to specify the factors that combine to determine subjective psychic distance. These factors represent the constituent dimensions used to describe the distance. Most definitions refer to three major categories of factors that constitute the distance: differences in culture, business practices, and environment. Such taxonomies of the distance components are not supported by an explicit theoretical basis. Therefore, the heterogeneity of the constituents proposed across the various definitions of subjective psychic makes them impossible to compare with one another (Prime et al., 2009). Moreover, in the operationalization of the subjective psychic distance construct, culture is presented along with some other dimensions, and there is often reference to well-accepted cultural variables, such as customs, values, and language (Bello et al., 2003; Sousa and Bradley, 2005, 2006). However, concepts are poorly defined, which is even more problematic for the single-item construct specification (Drogendijk and Slangen, 2006). A similar examination of the business practices category shows that business practices, working styles and organization practices require additional specification to clarify the potential similarities or differences between these terms. This is also true for the concepts of economic conditions and economic climate used in the environment category. We present some definitions of psychic distance and the operationalization of the construct in Table 1, in which we provide other definition of psychic distance , in addition to those already provided in the text, given by authors that consider the individual perception in defining the concept; we also show the operationalization of the concept used in these studies.

Table 1: Definition and operationalization of perceptual psychic distance

Authors	Definition	Operationalization
Klein and Roth (1990)	Perceived difference between the home market and the foreign market	Language of the country; accepted business practices; economic environment; legal system; communication infrastructure
Bello and Gilliland (1997)	Manufacturer's perception of how different the culture of the target export is from its home country	Customs and values of people; culture of the country; language of the country
Stottinger and Schlegelmilch (1998)	Perceived foreignness of international markets	Based on free magnitude scaling
Evand and Mavondo (2002)	The distance between the home market and a foreign market, resulting from the perception of both cultural and business differences	Cultural distance: power distance, masculinity, long-term orientation, individualism, uncertainty avoidance. Business differences: legal/political, retail structure, economy, business practice, language.
Sousa and Bradley (2005)	Individual's perception of the differences between the home country and the foreign country	Climatic conditions; purchasing power of customers; lifestyles; consumer preferences; cultural values, beliefs, attitudes and traditions; language; level of literacy and education.

Source: Author's elaboration form Prime et al. (2009)

An interesting attempt to operationalize psychic distance is that of Brewer (2007), who developed an index of psychic distance. At the core of his index is a re-confirmation of the definition by Johanson and Wiedersheim-Paul (1975) that the internationalization process begins with the firm selecting those foreign markets which they consider most familiar and then moving to successive markets that are considered less familiar. The author summarizes this as the "*more familiar the firm's managers are with a market, the more likely they are to consider entering it…only if it is assessed as suitable*" (Brewer, 2007, pp.47-48). According to Brewer (2007), operationalization attempts that rely on perceived differences based on traditional cultural dimensions as a proxy for psychic distance are incomplete. Similarly, Ellis (2007) argues that the cost of exporting has not fallen dramatically in the last few decades. Therefore, geographic distance still matters. Brewer's (2007) index includes various factors (primary indicators) that build familiarity between countries. Social, commercial and information factors assist in building familiarity in the host market and thus reducing uncertainty from inexperience. Social factors comprise cultural and language similarities. Commercial factors comprise two-way trade and stock and flows of foreign investment in and out of the host market. Information factors comprise availability of secondary information and immigration numbers. The more favourable are these factors the lower the distance between the two markets and thus the likelihood of resource commitment. Political factors comprise the value of aid programs and trade agreements. Brewer (2007) links geographic, cultural and psychic distance.

Some studies assimilate or reinterpret psychic distance as cultural distance and use both terms interchangeably (Luo et al., 2001), whereas other studies note a clear-cut distinction between the two constructs. Compared with the original Uppsala definition (Johanson and Vahlne, 1977), cultural distance is one of the objective indicators used to operationalize psychic distance. Therefore, it is a narrower variable (Shenkar, 2001); this seems to be confirmed in several empirical studies (Dow, 2000; Nordstrom and Vahlne, 1994). Sousa and Bradley (2006) note that the use of cultural distance as a synonym of and proxy for psychic distance needs to be revised because of the confusion of the level of analysis (country versus individual). The issues regarding the level of analysis and the relationship between psychic and cultural distance are relevant. According to Sousa and Bradley (2008), the level of analysis in which it is possible to measure the psychic distance is the individual: the individual's perception is in fact an interpretation of reality and therefore highly subjective and influenced by the personal experiences. The measurement of psychic distance to a higher level of analysis, for example at a national level, would include issues related to the risk of neglecting some of the differences such as "*regional differences within the countries; cultural and structural differences that may exist by industry; and individual differences and experiences*" (O'Grady and Lane 1996). The concept of cultural distance is in turn closely related to the concept of culture. The cultural dimension is therefore complex but over time gradually assumed a great importance in the analysis of internationalization processes. One aspect of the cultural dimension is related to the idea that people of a nation have patterns of behaviour and personality characteristics distinctive and permanent. Hofstede defines culture as "*the collective programming of the mind*" distinguishing the members of one group or category of people from others. Most researchers use the framework proposed by Hofstede (1980, 1991) for the measurement of cultural distance. The author identifies some "dimensions" that characterize the differences between national cultures: power distance, individualism/collectivism, masculinity/femininity, uncertainty avoidance and long-term orientation; Hofstede associates a numerical index to each dimension to facilitate the comparability between national cultures. In the case of cultural distance, therefore, you do not have to do with individual perceptions, but the right level of study is national, which means that countries, rather than individuals, are considered as the unit of analysis: Hofstede (1998), commenting on the applicability of his model at the individual level, states that the dimensions of culture that he identified "*...are meant to be a test of national cultures, not of individual personality, they distinguish cultural groups or populations, not individuals*". Several studies consider the terms "cultural distance" and "psychic distance" interchangeably (Eriksson et al., 2000; Fletcher and Bohn 1998). However, the use of the two terms as synonyms is questioned by the results of Nordstrom and Vahlne (1994), which show that the two concepts indicate different phenomena, although being connected together. Similarly, other authors (Sousa and Bradley, 2008) believe that there is a relationship between psychic distance and cultural distance, the first being strongly influenced by the second. The two concepts are applied in different areas of research, arising from the internationalization of firms: foreign direct investment (Kogut and Singh, 1988; Benito and Gripsrud, 1992, Grosse and Trevino, 1996), international joint ventures (Agarwal, 1994; Barkema et al., 1996; Hennart and Zeng, 2002), the process of internationalization (Nordstrom and Vahlne, 1994; Fletcher and Bohn, 1998; Clark and Pugh, 2001), corporate performance (O'Grady and Lane, 1996; Evans and Mavondo, 2002). In particular, the concepts of cultural and psychic distance were used to explain the expansion of firms in foreign markets and international trade. The basic hypothesis is that the cultural differences between the home country and the foreign countries create a distance which in turn influences the activity of firms in the international arena: it is believed that the similarities are easier to manage than differences, and therefore one might expect that firms have greater success in markets similar to that of belonging. Many studies (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Cavusgil, 1980) confirm this hypothesis. Similarly, both concepts have been used to explain the sequence of foreign direct investment, supporting the theory that firms are less likely to invest in countries culturally and psychically distant (Grosse and Trevino, 1996). Therefore, it seems that there is no homogeneous conception of the psychic distance construct and that, sometimes, the name used does not match the contents proposed in terms of operationalization.

Conceptualization, operationalization issues and the problem of the level of analysis are connected to and reflect on measurement issue. One debate concerns whether psychic distance should be measured as perceived by an individual, or whether it should be measured using more macro-level variables. Evans et al. (2000) endorse the efforts of Stottinger and Schlegelmilch (1998) to use cognitive mapping to measure psychic distance as perceived by key decision-makers. Their approach has merit in that many of the management decisions associated with psychic distance, such as the decision to export, are made based on the manager's perceptions at the time. Shenkar (2001) raises a related problem in that the perceived psychic distance between two markets may not be stable over time, nor homogeneous across a firm, nor country. These are all legitimate issues that lead one to the conclusion that psychic distance should ideally be measured by the perceptions of the decision-maker at the time the decision is made. Unfortunately, according to Dow and Karunaratna (2006) such an approach also has several limitations. The first, and most obvious, limitation is that researchers rarely have the luxury of surveying a decision-maker's perceptions immediately prior to a critical decision. As a result, researchers employing cognitive mapping (Dichtl et al., 1990; Luo et al., 2001) have generally compromised by measuring the decision-makers' perceptions ex post. This introduces a problem of discerning whether the perceptions influenced the decision, or whether the post-decision experience influenced the perceptions. A relationship between perceptions and actions may be identified, but the direction of causality is open to debate. Some researchers have circumvented the problem by using independent panels to assess the psychic distance (Nordstrom and Vahlne, 1994; Dow, 2000). Dow and Karunaratna (2006) propose a different way of measuring psychic distance, and its impact on management decisions. They split psychic distance into a sequence of related constructs. Psychic distance stimuli are the macro-level factors identified by researchers such as Johanson and Vahlne (1977) and Evans et al. (2000). Language, culture, and religion are commonly cited examples. Perceived psychic distance is a related but distinct construct and is commonly measured using cognitive mapping. A manager's perception of psychic distance will be a function of the psychic distance stimuli he or she is exposed to, but that perception will also be moderated by the decision-maker's sensitivity to those stimuli. Much of the instability and lack of homogeneity in the psychic distance construct that Shenkar (2001) refers to arises because the decision-maker's personal background and experiences (Dichtl et al., 1990) make him or her more or less sensitive to external stimuli, such as a difference in the major languages between countries. The manager's sensitivity to the stimuli will be a function of several factors, such as previous international experience, age, and education level of the decision-maker (Dichtl et al., 1990). It is also critical that, when developing factors to measure to psychic distance, account is taken of what Shenkar (2001) describes as the assumption of equivalence. It is inappropriate and unjustified to assume that all factors contribute equally to the overall psychic distance construct. Moreover, it can be difficult to isolate the individual effects, as they may overlap. In addition, within a nation factors such as language, religion, culture, just to name a few, may be different from region to region and then the unit can be difficult to extrapolate (Runfola, 2012). It is apparent that there is little consensus within the international business literature as to the precise definition, operationalization and management of psychic distance. Despite this, the concept has been widely used in the international business studies. In particular, the psychic distance construct has been tied to at least three separate internationalization outcomes (Ellis, 2008): the order in which foreign markets are entered (Child et al., 2009; Johanson and Wiedersheim-Paul, 1975); the modes of control used to enter foreign markets (Kogut and Singh, 1988); and firm performance in those markets (Evans and Mavondo, 2002; Stottinger and Schlegelmilch, 1998). The concept of psychic distance will be further developed in this work, mainly with reference to the construct of liability of foreignness according to the revisited Uppsala internationalization process model.

1.3.2 Some criticism of the Uppsala model and the need for a revision

The Uppsala model has generated a debate that has continued over the years, which has given rise to some criticism of the model, it has developed some aspects and has led to a revision of the model, by the authors themselves, in light of changes in the competitive environment and new challenges posed by globalization on the international markets. As a result of increased globalization the number of international opportunities and internationalization strategies have increased significantly as well as the threat of not expanding into foreign countries, missing out on new opportunities. Forsgren (2002) mentions this when criticizing the Uppsala model. He argues that firms might intentionally invest internationally, despite of low market knowledge, if the perceived risk of not investing is higher than actually investing. One reason for this can be fierce competition and low growth rates in the home market. One could argue that this observation does not contradict with the Uppsala Model, since the model is not built to explain why a firm chooses to enter a market. Instead it focuses on the activities after the decision to go abroad has been made (Johanson and Vahlne, 1977, 2009; Figueira-de-Lemos et al., 2010).

The first object of debate in the concept of psychic distance, that we have analyzed in depth in the previous paragraph, underlining the problems related to its conceptualization, operationalization and measurement so that the debate on the construct is still open. The original Uppsala model suggests that the order of which market a firm enters depends on psychic – and also physical – distance, beginning with countries closer to its home market (Johanson and Vahlne, 1977). The world has become more global, which has not decreased physical distance, but made it less of an obstacle. As the world has changed, old theories might overestimate the implication of both physical and psychic distance in the internationalization process both in the case of which market to enter and which entry mode to choose. Some scholars show that with increasing globalization of markets, the concept of psychic distance reduces its scope of application, given the increasing level of homogeneity in tastes and consumer behaviour at the international level (Stottinger and Schlegelmilch, 1998). A subject noted by Axinn and Matthyssens (2002) when criticizing the Uppsala model is E-commerce. Internationalizing in this way makes it possible for firms to enter a large number of markets, without following the incremental steps suggested by the Uppsala model. It is also argued by the authors that this speeds up the internationalization process and reduces issue of psychic and physical distance.

Besides psychic distance, the main object of criticism is the incrementalism implied in the establishment chain described by the Uppsala model. Nowadays, threats and opportunities from globalization are not only relevant to large companies but also to SMEs, start-ups as well as established companies. SMEs might seize the opportunity to reach a larger market, taking advantage of technological progress. Studies of SMEs' internationalization processes have led to some criticism of the Uppsala model. One above all, the "born globals", firm that are international form the beginning and don't follow the incremental steps described by the model (Knight, 1997; Knight and Cavusgil, 2004; Oviatt and

McDougall, 1994). The literature on born globals claims that some companies leapfrog into internationalization despite the fact that their resources are constrained by their young age and small size, their markets are most volatile and they, by definition, have little or no experience in any country (Oviatt and McDougall 1994). Consequently, the exceptions to the U- model, introduced above, do not include this type of enterprises. In this stream, it is also agreed that some firms may not complete the internationalization process in the sense it was viewed in the U- and I-models: they do not necessarily have to invest abroad. Instead of establishing subsidiaries, they may arrange strategic alliances (Oviatt and McDougall 1994).Another point of criticism regards the speed of internationalization leaving the Uppsala model as too static and deterministic (Andersen, 1997). Johanson and Vahlne (1990, 2009) argue that their model is not static but instead dynamic. Further, they argue that "…*our model focuses on the processes driving continuous change of those [the firm] boundaries*." (Johanson and Vahlne, 2009, p.1426). Regarding the accusation, of the model being deterministic Johanson and Vahlne agree on the causal relationship between experiential learning and commitment of resource. Their definition of causal, though, does not suggest that one factor is determining the other, but rather that there is a relationship where the factors influencing each other. They also admit that there usually are several factors, other than experiential learning and commitment that also have an impact on the causal relationship (Johanson and Vahlne, 2009). According to Andersen (1997) and Petersen et al. (2003) the accusation of being too deterministic also implicates that the Uppsala Model neglects managerial action. Axinn and Matthyssen (2002) continue by stating that today's firms have flatter hierarchies and that inter-firm relations and structures are more flexible, claiming that "*managers play an increasingly important role in the development of firms' internationalization strategies*" (Axinn and Matthyssens, 2002, p.445). Melin (1992) argues that the model is too deterministic in predicting the transition from one phase to another in international operations. The author shows that the model is useful for understanding the initial stages of the internationalization process, not considering the essence of the process of internationalization adopted by firms with high international experience, for which the entry decisions and the operating activities in international markets may not be gradual. One of the major reviews of the Uppsala Model was made by Forsgren (2002) and one of his larger criticisms about the model concerns the concept of learning. In the Uppsala model learning is considered to take place incrementally as experience increases. Forsgren (2002) however points out that there has been a large amount of research showing that there are more dimensions of organizational learning. It is argued that firms can learn from other firms in their network by having access to their knowledge and thereby not having to experience them self (Forsgren, 2002; Hansen, 1999; Kraatz, 1998; Levitt and March, 1988). Imitative learning is another alternative to experiential learning where the firm tries to do as other successful firms do and thereby gaining experience (Forsgren 2002). To hire people with experience, acquiring local firms or simply perform a focused research for information are also argued to be alternative ways of increasing knowledge without experiential learning (Forsgren, 2002). What becomes clear from these considerations about learning, is that all alternative methods result in a lower gradualness of the process of internationalization, and thus the firm's presence in foreign markets can be faster.

1.4 The network approach to internationalization

The criticism of the Uppsala model do not mean that that this approach to internationalization is wrong as it may still apply to some firms, but it is less applicable in an increasing number of situations where national borders are becoming less relevant in the contemporary global environment, that includes alliances by firms that cross national boundaries and the impact of the information revolution in stimulating globalisation. In response to the emerging network perspective, many scholars have integrated the such perspective to internationalization, highlighting the role of relationships between firms in order to understand and explain the internationalization process of the firm in a new scenario (Johanson and Kao, 2010, 2012). The network approach to internationalization theory comprises several theoretical roots. The first stems from research made within the Industrial Marketing and Purchasing (IMP) Group from the late 1970s[1]. IMP-Group studies were focused on cross-border, business-to-business marketing activities. However, most of this research was conducted without explicit attention to the internationalization process. When applied to internationalization, it is possible that the network approach developed by the IMP Group could provide a more comprehensive explanation of internationalization over the life of the firm. This is due to its holistic approach and focus on interaction, market and firms' relationship to that market, the existence of linkages between firms, on co-operation as well as competition as a driving force, on the exchange of information between parties, and on the importance of atmosphere in which the transaction takes place. Two members of the IMP-Group applied the concepts of inter-firm business relationships and networks to the international context and wrote an article that is often considered to be the ground breaking work introducing network theory (Johanson and Mattsson, 1988). Built on social exchange theory (Cook and Emerson, 1978) and resource dependence theory (Pfeffer and Salancik, 1978), the authors argued the internationalization of the firm is a network phenomenon as firms are embedded in a web of connected relationships with customers and suppliers. During the internationalization process, firms need to obtain external resources through exchange with other actors in the network. While the traditional internationalization literature largely concentrates on the processes of deciding and planning to enter a market and on entry modes, the network approach stresses the actual process of market entry and becoming a player in the network (Salmi, 2000). According to this approach, internationalization of the firm can be achieved through (1) creating relationships in foreign country networks that are new to it (international extension); (2) the development of relationships and increasing resource commitments in those networks in which the company already has a position (penetration) or (3) connecting the existing networks in different countries (Johanson and Mattson, 1988). The network approach claims that for a firm's development, cooperation is more efficient than competition: together, companies can organize their resources and capabilities efficiently (Ibid.). Consequently, a firm can have most of its physical assets located domestically but still be an important player in an

[1] See paragraph 1.8.

international network (Björkman and Forsgren, 2000). It can also gain access to the experiential knowledge of other firms without necessarily going through the same experiences (Eriksson et al., 1998). In addition to learning about the partner's capabilities, needs and strategies, a company can also acquire knowledge about the latter's business conditions and market networks (Johanson and Johanson, 1999). Thus, a typical internationalization sequence has changed from gradual expansion to the one in "leaps" by joining the network. On the other hand, it should not be forgotten that the relationships could not only drive and facilitate, but also inhibit a firm internationalization. Having a network orientation and, consequently, identifying the roles and strengths of the actors within it provides the firm with an understanding of possible constraints and opportunities for its operations; furthermore, being positioned within a foreign network allows the internationalised firm to develop relationships that, in turn, can lead to further linkages with other actors (Axelsson and Johanson, 1992). Johanson and Mattsson (1988) use the network framework to suggest an internationalization typology. They describe how the degree of internationalization at both micro and macro levels can be conceptualised as four broad firm level international situations, namely the Early Starter, the Late Starter, the Lonely International and the International among Others. The Early Starter has little knowledge of foreign markets and it cannot use relationships in the home country to gain it. The firm uses agents, distributors or customers abroad to internationalize, reduce cost and uncertainty and benefit from the agent's previous knowledge and investments in that market. The initiative to go abroad is often taken by other counterparts than the firm itself. The alternative strategy is to start with an acquisition or "greenfield" investment, but it is mainly possible for the companies that are large and resourceful in the home market (Johanson and Mattson, 1988). If a firm's suppliers, customers and competitors are international, it has a number of indirect relations with foreign networks even it is purely domestic (Johanson and Mattson, 1988). Thus, its relationships in the home market may drive it to enter foreign markets. It's interesting to highlight the role of knowledge and the differences between the Uppsala model and the network model of internationalization. The Uppsala model describes how the firm's internationalization situation can influence its level of experiential knowledge in two ways. First, the level of commitment can affect the level of information feedback from the foreign market (Johanson and Vahlne, 1977; 1990), that is to say that the greater the commitment to the market, the stronger the information channels (Johanson and Weidersheim-Paul, 1975). Second, the Uppsala model argues that knowledge can be acquired through the firm increasing its interaction with the market through the intensification of its current activities (Johanson and Vahlne, 1977; 1990). Not only can the firm increase its knowledge levels through the process of 'learning by doing', but Johanson and Mattsson (1988) also remind us that an underlying tenet of industrial network theory is that the knowledge of other actors in the network can influence a firm's decision-making. Consequently, the relationships that the international firm has with its network are considered important for the accumulation of knowledge. The Early Starter's lack of current activities involving foreign actors, directly or indirectly, hinders the acquisition of knowledge. In addition, the lowly internationalised position of the network further limits the available knowledge resources. Overall, with the Early Starter firm having little or no experience of operating in a foreign market and possessing few and relatively weak relationships with international firms, knowledge feedback direct from the foreign market to the firm is limited (Hadley and Wilson, 2003). The Late Starter, like the Early Starter, has a low degree of internationalization, but is positioned in a highly internationalised market. Consequently, the Late Starter is characterised by a low level of commitment and activity in international markets, low levels of international experience and few direct international relationships (Johanson and Mattsson, 1988). The closest markets might be difficult to enter (as the competitors have more knowledge and because it is hard to break into an existing network), so the firm might start its internationalization by entering more distant countries (Chetty and Blankenburg Holm, 2000). It is argued that the Late Starter will enjoy a knowledge advantage relative to the Early Starter. Supporting this, industrial network theory contends that the knowledge of other actors in the network can influence a firm's decision-making (Johanson and Mattsson, 1988; Axelsson and Johanson, 1992). Bonaccorsi (1992) maintains that, especially for small firms, decisions related to committing resources to the internationalization process are generally made on the basis of the collective experience of the firm's business network shared through communication networks. Bonaccorsi (1992) also points out that, even without direct channels of inter-firm communication, firms may feel comfortable imitating other firms' internationalization decisions: imitation may improve experiential knowledge levels because the firm becomes more familiar with the foreign market through imitating others. Numerous empirical studies offer support for the assertion that the firm acquires knowledge from the wider network (Holm et al., 1996; Chetty and Eriksson, 2002). The Late Starter also stands to further enhance its overall experiential knowledge levels through participation in its highly internationalized network. Despite the observation that the Late Starter only has indirect contact with international networks, cultivating these relationships is still contended to furnish the firm with valuable experience regarding the ability to develop and coordinate a position within a foreign market. In other words, the level of experiential knowledge in the firm's network should have a positive influence on the firm's own level of experiential knowledge (Hadley and Wilson, 2003).

The Lonely International has experience of relationships with and in foreign countries. Its network is only lowly internationalized (Johanson and Mattson, 1988). Although the Lonely International firm resides in an internationally inexperienced network, its greater degree of commitment to the internationalization process, as reflected by its relatively high degree of internationalization, provides with greater levels of experiential knowledge from first-hand experience relative to the Early Starter and Late Starter. The reasoning behind this involves the argument that experiential knowledge is only useful once it becomes firm specific, with first-hand experience allowing the firm to more ably blend the new experiences with its existing knowledge base and organisational procedures (Johanson and Vahlne, 1977). Thus, the direct or exchange specific relationship of the Lonely International firm with its foreign market will allow for a greater level of internationalization knowledge to be tailored to the firm's requirements when compared with the indirect channels of the Late Starter (Johanson and Vahlne, 1992).

The International among Others has a high degree of internationalization and has possibilities to use positions in one network for bridging over the other networks (Johanson and Mattson, 1988). Its suppliers also belong to highly internationalized networks (Wilkinson et al., 2000). An important issue for this type of firm is the coordination of activities in different markets (Johanson and Mattson, 1988). Like the Lonely International, the International among Others has established and developed positions and resources in foreign markets but it also has a highly internationalized macro-position, which is argued to provide it with higher levels of experiential knowledge when compared with the Lonely International. The highly internationalized macro-position of the International among Others firm might provide it with greater experience in integrating and coordinating its network positions (Johanson and Mattsson, 1988), thus, improving its level of internationalization knowledge. In addition, the need to coordinate and integrate market positions in a highly internationalised environment is argued to hasten the firm's need to learn in order to sustain and improve its network positions, again encouraging the development of internationalization knowledge.

The network approach has received criticism for having limited strength for understanding the pattern of internationalization, not offering very precise conclusions, including too many variables (Björkman and Forsgren, 2000), having indistinctive criteria for differentiating between different firm types like the early and late starters (Chetty and Blankenburg Holm, 2000), not offering satisfactory models for predictions (Björkman and Forsgren, 2000) and concentrating on larger and/or manufacturing companies: it rarely describes how small and medium-sized firms use networks in their internationalization (Nummela, 2002). In addition, the model doesn't address how firms shift positions in the typology: for example, how an early starter becomes an international among others (Chetty and Blankenbur Holm, 2000), and doesn't discuss in depth how to create relationships where none exist (Andersson, 2002). Moreover, this approach often neglects several external factors and actors: for example, relationships with competitors (Chetty and Wilson, 2003), intense domestic competition, unsolicited orders and government export promotion programs leading to or quickening internationalization (Chetty and Blankenburg Holm, 2000). It also frequently treats the relationship levels of knowledge and internationalization as an implicit dimension (Hadley and Wilson, 2003). In addition, the approach does not discuss the importance of inter-personal linkages, decision-maker and firm characteristics in taking up opportunities for international penetration, extension and integration that emerge from the networks (Chetty and Blankenburg Holm, 2000). The network approach to internationalization also ignores the ways companies could overcome the problems experienced in internationalization through their network relationships (Chetty and Blankenburg Holm, 2000). In addition, the approach might be less suitable for explaining radical strategic changes like closing down of some units (Andersson, 2002).

From the above it becomes evident that compared to the other research streams, the network approach to internationalization has some distinctive capabilities. It is able to show that by joining a foreign business network, a firm can considerably quicken its internationalization: it may begin the process by entering distant markets and skip some stages of its internationalization process (for example, enter a market directly with its own manufacturing units). Moreover, it demonstrates that network relationships may sometimes inhibit the process: consequently, de-internationalization may occur. Compared to some other research streams, the network approach thus provides a somewhat more detailed description of the internationalization process (the latter often ignore the importance of long-term relationships and external actors and influences). Thus, it is not surprising that this view has received empirical support. The IMP Group has contributed significantly to the development of theories and evidence on the nature and development of business network relationships, as well as to the development of methodologies for studying them (Wilkinson, 2001). The ideas, concepts and models of the network approach have inspired some recent work on firms' internationalization. For example, some papers have demonstrated the importance of networks for studying foreign direct investments (FDI) abroad as a market entry mode (Bridgewater, 1999; Chen and Chen, 1998; Salmi, 2000) and analysing the impact of inward FDI on foreign affiliates' internationalization (Kaminski and Smarzynska, 2001). By highlighting a firm's business context (including the degree of its surrounding business network), the network perspective goes beyond the models of incremental internationalization. It is a good starting point when examining the internationalization process (Björkman and Forsgren, 2000), as this approach is able to capture its interconnectedness and concurrence, inward and outward internationalization (Andersson, 2002; Fletcher and Barrett, 2001). It also represents an important theoretical framework for describing the foreign market/customer selection (Andersen and Buvik, 2002; Coviello and Munro, 1997). In addition, network relationships might be instrumental in explaining why some firms choose to enter a market directly with their own manufacturing unit (Björkman and Eklund, 1996) and not start from exporting as the traditional models suggest. Moreover, the network approach provides a good description of the business reality (Björkman and Forsgren, 2000) and has thus received considerable empirical support (Andersson, 2002; Chetty and Blankenburg Holm, 2000). It draws attention to a firm's changing internationalization situation as a result of its position in a network of firms and associated relationships (Hadley and Wilson, 2003) and includes the seemingly random internationalization behaviour falling outside the traditional models, for example the one of the late starters that might begin their internationalization from distant markets. This approach also demonstrates the importance of long-term relationships with customers, suppliers and other actors (Björkman and Forsgren, 2000; Hadley and Wilson, 2003) and external influences in firms' internationalization process (Ford, 1998). For example, acquiring necessary resources and contacts would be difficult without having long-term network partners (Chetty and Wilson, 2003). Moreover, by admitting that relationships can sometimes inhibit a firm's foreign market entry (Ford, 1998) it is able to explain de-internationalization.

Finally, we mention another relevant contribution proposed by Jansson and Sandberg (2008) who integrate internationalization process theory with industrial network theory to explain SME entry in emerging markets. The authors show that entry modes are complemented by entry nodes and entry processes, and develop a Five/Five Stages Model to consider the dynamic interaction between these factors.

In particular, Jansson and Sandberg (2008) in their article take up the following three aspects of the internationalization processes:

1. Establishment of relationships in networks. According to the network approach to internationalization (Johanson and Mattsson, 1988), exporting/importing takes place through establishing relationships in foreign market networks and developing them through entry processes. Such establishment points are defined as entry nodes.
2. Regional and global internationalization processes. Relationships are established and maintained in different ways and in various sequences between countries. Ways to internationalize regionally and the extent of the regional process mainly vary with how far firms have come in the overall global internationalization process.
3. Internationalization process theory. Internationalization in networks and internationalization processes in general are too loosely connected. The authors combine five relationship stages with the traditional stages of the internationalization process to form an elaborated stage model, namely the Five/Five Stages Model. In particular, this framework is relevant for analysing the exporting activities of SMEs and their entry into new markets.

The Five/Five Stages Model combine the five stages of Ford's relationship model[2] and Cavusgil's internationalization model[3]. The model indicates that the more well-established, trustworthy relationships a firm has developed, the more experiences it has in the particular foreign markets. Additionally, the more relationships the firm has established, the more internationally dedicated the firm is in terms of resource ties and capabilities with local market.

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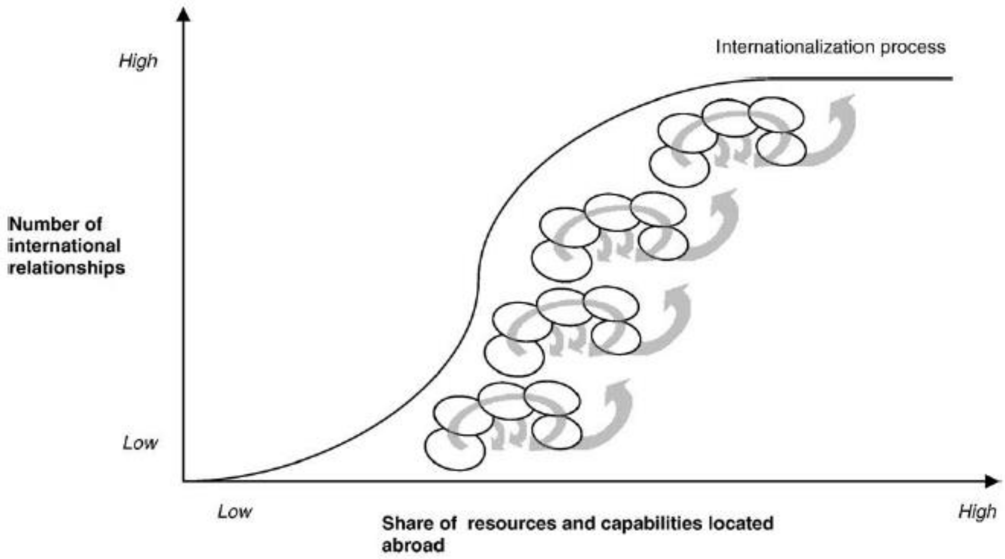
[2] The model of relationship evolution proposed by Ford (1980) comprises five stages of evolution. The five stages are (Ford 1980): (1) pre-relationship stage, (2) early stage, (3) development stage, (4) long-term stage, and (5) final stage.

[3] The model developed by Cavusgil (1980) i salso known as an Innovation-Related internationalization model, in which the five stages are: (1) domestic marketing: the firm sells only in the home market; (2) pre-export stage: the firm searches for information and evaluate the feasibility of undertaking exporting; (3) experimental involvement: the firm starts exporting on a limited basis to psychologically close countries; (4) active involvement: export in more new countries, direct export and increase in sales volume; (5) committed involvement: management constantly makes choices in allocating limited resources between home and foreign markets.

Fig. 2: The Five/Five Stages Model



Source: Jansson and Sandberg (2008)

In response to the emerging network perspective in industrial market studies, Johanson and Vahlne make a first attempt to integrate the network perspective in their 1990 paper that explains the mechanisms of internationalization. Adopting the network point of view, they differentiate internationalization (foreign market development) into three directions as follows:

1. The establishment of relationships in country networks that are new (foreign) to the firm, namely international expansion.
2. The development of relationships in existing foreign country networks in which the firm has involvement, namely penetration.
3. The connection of networks in different countries, namely international integration.

In the paper, the network perspective is basically applied to provide a different lens to understand foreign market development in terms of network development. The discussion in Johanson and Vahlne's 1990 paper regarding linkage between the internationalization model and the network view is very preliminary. Johanson and Vahlne (2009) propose a revisited version of the gradual model published in 1977. The new model is nothing but the result of a formalization of previous articles by the authors (Johanson and Vahlne, 1990, 2003, 2006).

1.5 The Uppsala model revisited

The Uppsala internationalization process model is revisited in the light of changes in business practices and theoretical advances that have been made since 1977: changes in economic and regulatory environments, in company behaviour, new research frontiers, concepts and insights have led to a revision of the model (Johanson and Vahlne, 2003, 2009). Moreover, when Johanson and Vahlne constructed the model there wasn't a full understanding of market complexities that might explain internationalization difficulties, but subsequent research on international marketing and purchasing in business markets has introduced a business network view of the environment faced by an internationalizing firm. Even if a number of studies have supported ideas and concepts of the behavioural models (Kogut and Singh, 1988; Eriksson et al., 1997), there seems to be the need for new network-based models of internationalization.

Considering global competition and accelerating technological development that force firms to internationalize rapidly, the need for new models of internationalization that integrate the network perspective is recognized (Johanson and Vahlne, 2003), also in the light of research that places attention on networks and network relationships when trying to understand and explain the internationalization of firms (Oviatt and McDougall, 1994; Coviello and Munro, 1997; Chetty and Blankenburg Holm, 2000).

Johanson and Vahlne (2003) have first outlined a network model of the internationalization of the firm, combining the experiential learning-commitment interplay as the driving mechanism from the old internationalization process model with a similar experiential learning-commitment mechanism focusing on business network relationship. The authors first provide a definition of the network concept they rely on, based on Cook and Emerson's (1978) definition of exchange networks and on empirical studies within the IMP group (Håkansson, 1982):

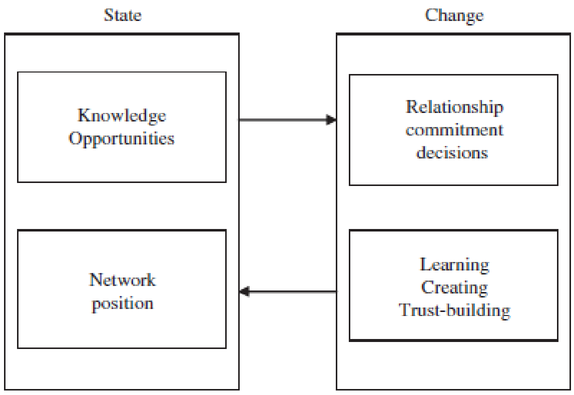
"We define business networks as sets of interconnected business relationships, in which each exchange relation is between business firms conceptualized as collective actors…" (Johanson and Vahlne, 2003; p.92

The model results in firms learning in relationships, which enables them to enter new country markets in which they can develop new relationships which give them a platform for entering other country markets, in a context in which country borders are no longer relevant. The focus is on the international network development in which don’t necessarily follow the establishment chain within specific countries. Within a business network perspective, all barriers related to foreign market entry and foreign market expansion are associated with the establishment and development of relationships with specific customers or supplier firms, not with country markets. Neither experiential knowledge nor commitment concerns country but potential and existing relationship partners. There is still a graduality in the process, in the sense the relationship partners gradually learn about each other’s needs, resources, strategies and business contexts. On one hand, there are three tyoes of business network learning (Håkansson and Johanson, 2001; Johanson and Vahlne, 2003): partner specific learning; skills that may be transferred to and used in other relationships; coordination of activities in the relationship with those in another relationship. On the other hand, there is commitment , that is made to specific business firms whether they are customers, suppliers, intermediary or cooperating firms. Hence international expansion is an outcome of the firm’s development of existing relationships, the firm’s establishment of new relationships and the firm’s development of relationships with firms that are connected to those which they are already working together with (Johanson and Vahlne, 2003). In terms of psychic distance, the authors distinguish between relationship-specific psychic distance, that has to do with business-related managerial problems that are relationship-specific, and country-specific psychic distance that is associated with problems related to country-specific institutional and cultural barriers.

In the article “The Uppsala internationalization model revisited: From liability of foreignness to liability of outsidership”, published in 2009 on Journal of International Business Studies, Johanson and Vahlne present their original model of 1977 revisited and discuss that the problems and opportunities that may occur for a company in international business are less and less related to country-specificity question, but rather they become a matter of relationships and networks: it was this network approach that Johanson and Vahlne did not consider in the original Uppsala model. In this sense, the update and further describe their view of internationalization in the light of the importance of business networks that researchers have presented as relevant since the first model. The lack of knowledge of who the business actors are, how they act and most importantly how they are linked to each other is crucial. The core argument of the revisited model is based on business network research, and has two sides. The first is that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. A large-scale empirical study of international marketing and purchasing of industrial products (the IMP project) that was carried out in the late 1970s and early 1980s by researchers from Sweden and four other European countries was based on the interaction approach (Håkansson, 1982). Work done during the project demonstrated that close and lasting business relationships between suppliers and customers are indeed important, be they within a given country or between countries. Hence insidership in relevant networks is necessary for successful internationalization, and so there is a liability of outsidership. Second, relationships offer potential for learning and for trust building and commitment, both of which are preconditions for internationalization.

In the business network model of the internationalization process (Johanson and Vahlne, 2009), the firm is embedded in an enabling, and at the same time constraining, business network that includes actors engaged in a wide variety of interdependent relationships. Internationalization is seen as the outcome of firm actions to strengthen network positions. As networks are borderless, the distinction between entry and expansion in the foreign market is less relevant. The traditional view of entry (that is, overcoming various barriers) is becoming less important than internationalizing undertaken to strengthen a firm’s position in the network (Johanson and Vahlne, 2003). Consistently with the network view, where much is contingent on existing relationships (Håkansson and Snehota, 1995), existing business relationships allows to identify and exploit opportunities, thus having an impact on the geographical market a firm will decide to enter and on which mode to use. Learning and commitment building take place in relationships and are strongly related to identifying and exploiting opportunities (Johanson and Vahlne, 2006). In this sense, internationalization is contingent more on developing opportunities than on overcoming uncertainties. As in the 1977 version model, the 2009 business network model consists of two sets of variables: state variables and change variables, or stock and flow, which are relevant to both sides in a relationship (Figure 3).

Fig. 3: The business network internationalization process model – stock and flow



Source: Johanson and Vahlne (2009)

The model depicts dynamic, cumulative processes of learning, as well as trust and commitment building. An increased level of knowledge may thus have a positive or a negative impact on building trust and commitment. Although the basic structure of the model is the same as the one built in 1977, “recognition of opportunities” has been added to the “knowledge” concept, since opportunities are considered to be the

most important element of the body of knowledge that drives the process. Other important components of knowledge include needs, capabilities, strategies, and networks of directly or indirectly related firms in their institutional contexts. The second state variable is labelled “network position”, that was identified in the original model as “market commitment”. Now it is assumed that the internationalization process is pursued within a network. Relationships are characterized by specific levels of knowledge, trust, and commitment and a desirable outcome of learning, trust and commitment building will be that the focal firm enjoys a partnership and a network position. As to the change variables, the original label of "current activities" is changed to "learning, creating, and trust-building'' to make the outcome of current activities more explicit. If the concept of current activities, or operations, in the original model was intended to indicate that regular daily activities play an important role, and lead to increased knowledge, trust, and commitment, the use of the term "learning" in the revisited model is at a higher level of abstraction: it is more than experiential learning. The speed, intensity, and efficiency of the processes of learning, creating knowledge, and building trust depend on the existing body of knowledge, trust, and commitment, and particularly on the extent to which the partners find given opportunities appealing. Finally, the other change variable, "relationship commitment decisions" has been adapted from the original model, adding "relationship" to clarify that commitment is to relationships or to networks of relationships. This variable implies that the focal firm decides either to increase or decrease the level of commitment to one or several relationships in its network, in terms of changes in entry modes, the size of investments, organizational changes, and definitely in the level of dependence. From a network point of view, there are two kinds of decision regarding the commitment to the relationship: to develop new relationships, in most cases businesses, in others they may be about building bridges to new networks and filling structural holes (Burt, 1995); to protect or support the firm's existing network of strategic relationships.

The revisited model of Johanson and Vahlne has some important implications. First, internationalization is in direct relation to a firm's relationships and networks. Thus, a firm is much likely to go abroad based on its relationships with its partners. A firm is also likely to follow a partner abroad if the partner has a valuable position in a foreign network. In particular, the general question "where will an internationalizing firm go?" has two possible answers. The first is where it sees opportunities: with relationships, these are much more likely to arise than without. But if there are no relevant relationships, a firm is likely to go where it might be easy to find such partner. For example, an initial step might be to link itself with an agent or a distributor. When relationships are established, the firm might bypass its initial contact and establish its own subsidiary. Short psychic distance will facilitate the establishment and development of relationships, which is a necessary but insufficient condition for identification and exploitation of opportunities. A second answer could be following a partner: when a relationship partner who is going abroad, or already is abroad, wants the focal firm to follow; by following the partner abroad, the firm demonstrates its commitment to the relationship. Another point, that is one of the most essential updates in the revisited model of Johanson and Vahlne, is the development of a relationship that is described as a bilateral and informal process between two counterparts who sequentially commit, trust and learn from one another: the original Uppsala model did not include the importance of mutual commitment for successful internationalization. To further integrate the term psychic distance as explained earlier in this paper, the difficulty of building new relationships is set in relation to the mutual understanding between the counterparts; therefore, a greater psychic distance implicates a greater difficulty of new relationships, all other things being equal.

The revisited model places the attention on the shift from the liability of foreignness to the liability of outsidership. It is discussed that problems and opportunities that may occur for a company in international business are less and less related to country-specificity question, but rather they become a matter of relationships and networks. The lack of knowledge of who the business actors are, how they act and most importantly how they are linked to each other is crucial. A firm, that is not an insider, will suffer from lack of business opportunities as a consequence of lack of relationships. The liability of outsidership refers to problems linked with being outside an important business network of relationships and contacts in a new market. The main problem of liability of outsidership is how to become a group member, or in other words, an insider. Hence, the liability of outsidership is a question of gaining knowledge and thereby opportunities as a result of relationships. As discussed above, the internationalization process is often viewed as a step-by-step process of development and understanding. As an outsider it is impossible to conduct business because it is through relationships that firms gain knowledge, trust and commit to further commitment, that is the essence of the internationalization process. A company trying to enter a market where no network or "insidership" is established will suffer from the liability of outsidership where liability of foreignness is a factor making it more difficult to get on the inside. Moreover, the larger the psychic distance, other things being equal, the more difficult it is to build new relationships: this is the effect of the liability of foreignness. (Johanson and Vahlne, 2009). In next two paragraphs, liabilitiy of foreignness and liability of outsidership are analyzed in depth, being a conceptual platform of this work.

1.6 Liabilities in internationalization: the liability of foreignness

Liabilities in internationalization can be defined as difficulties faced by firms when they internationalize in search of new markets. We focus on two specific liabilities: foreignness and outsidership. The liability of foreignness (LOF) is a well-known concept in the international business domain, initially conceptualized by Hymer (1960; 1976) as costs of doing business abroad. The liability of outsidership (LOO) was first introduced by Johanson and Vahlne (2009) when revisiting their original Uppsala model published in 1977, by proposing a business network internationalization process model.

The liability of foreignness is related to the fact that foreign firms incur additional costs when operating internationally, compared to local firms that have better information about their country, economy, laws, culture, politics etc. LOF refers to phenomena first described in Stephen Hymen's dissertation, which was completed in 1960 and published in 1976. Extending industrial organization theory to an international context, Hymer provided an alternative to the theory of international capital movements to explain and justify foreign direct investments (FDI). He argued that MNCs could overcome imperfections in factor markets by internalizing the market for intangible assets via FDI in order to safeguard proprietary technology from appropriation, but this requires managing subsidiaries in host countries. Hymer (1976) cautioned that foreign subsidiaries would face distinct disadvantages because national firms have the general advantage of better information about their country: its economy, its language, its law, and its politics. The author gives three main reasons for such liability: (1) foreign firms have less information than local firms on how to do business in a foreign country; (2) Foreign firms are also exposed to discrimination by governments, consumers and suppliers, and (3) to foreign exchange risk. Kindleberger (1969) made similar observations, recognizing that subsidiary disadvantages could arise because domestic firms are closer to the "locus of decision making and without the filter of long lines to distort communication". Hymer (1976) and Kindleberger's (1969) work advanced this theory of the multinational corporations: their early recognition of subsidiary disadvantages is the precursor to what is today referred to as liabilities of foreignness. Both the authors viewed foreignness largely in terms of economic distance related to costs of setting up a subsidiary, implying that subsidiary disadvantages are similar to national-level barriers to entry.

Zaheer (1995) introduced this phenomenon with the notion of "liabilities of foreignness" (LOF) and classified sources of LOF into four categories: (1) costs directly associated with spatial distance between parent and subsidiaries; (2) specific costs incurred exclusively by foreign subsidiaries due to unfamiliarity with host-country environments; (3) costs resulting from economic nationalism and a lack of legitimacy in the host country; and (4) costs from sales restrictions imposed by the home country. While this list is not exhaustive, it identifies the key sources of additional costs facing by foreign firms operating abroad. Similarly, Matsuo (2000) argued that liabilities of foreignness stem from three major sources: culture and language differences, economic and political regulations, and spatial difference between parent and subsidiary. Building on these studies, Mezias (2002) calls attention to two additional, potential sources of liabilities of foreignness. First, liabilities of foreignness can arise from costs that are not exclusive to foreign firms. Some significant operating costs affect both foreign and domestic firms, but foreign firms may experience these costs disproportionately because domestic firms have learned to mitigate these costs. A second potential source of liabilities of foreignness illustrates the need to analyse more than just costs incurred by foreign firms operating abroad. Advantages enjoyed by domestic firms that are not available to foreign subsidiaries and are not related to a foreign firm's cost structure are also sources of liabilities of foreignness. According to the development of studies on liabilities of foreignness, the definition of the construct should be expanded: liabilities of foreignness are costs only foreign firms incur when operating abroad, costs foreign firms incur disproportionately to domestic firms, and benefits denied to foreign firms that are enjoyed exclusively by domestic firms.

There is still a debate on the relationship between the cost of doing business abroad (CDBA) and the liability of foreignness. Zaheer (2002) argues that CDBA is an economic concept consisting primarily of market-driven costs related to geographic distance, whereas LOF is a sociological concept consisting primarily of structural/relational and legitimacy costs. Eden and Miller (2004) provide a deconstruction of the relationship between CDBA and LOF, where LOF is a key component of CDBA, seen as a broader concept. LOF stresses the social costs of doing business abroad: these social costs arise from the unfamiliarity, relational and discriminatory hazards that foreign firms face and domestic firms do not. According to Eden and Miller (2001) LOF can be decomposed into two hazards that affect foreign firms disproportionately to local firms in the host country. Unfamiliarity hazards reflect the lack of knowledge of or experience in the host country, which places the foreign firm at a disadvantage compared to local firms. Discrimination hazards are represented by the discriminatory treatment inflicted on the foreign firm relative to local firms in the host country, that can arise from differential treatment by the home or host governments, consumers or the general public in the host country: these are the costs of being different, of being seen as an outsider. Eden and Miller (2001) are the first to introduce the problem, and related costs, of being an outsider.

Another big concern, related to foreignness, multinational enterprises (MNCs) face regarding internationalization is assessing the fit of what they wish to transfer abroad with the new host environment (Bartlett and Ghoshal, 1989; Kogut and Zander, 1993; Brannen, 2004). If the parent company is significantly foreign from its subsidiary, the transferred firm assets may not fit the receiving context in the host country (Hymer, 1976; Kostova and Roth, 2002). This liability of foreignness has been a fundamental assumption in the MNC literature and, as such, has become a central focus for theory building. Liabilities of foreignness have spurred the interests of scholars who have laid its theoretical foundations (Caves, 1982;

Miller and Parkhe, 2002; Eden and Miller, 2001;Mezias, 2002a; Zaheer, 1995, 2002); they have also started not only to explore the drivers of these additional internationalization costs but also to propose strategies to overcome the challenges and mitigate foreignness (Bell et al., 2012; Hennart et al., 2002; Luo and Mezias, 2002; Mezias, 2002b; Sethi and Guisinger, 2002; Zaheer and Mosakowski, 1997).

The construct has been further developed thanks to the contributions appeared on the special issue of Journal of International Management (vol.8, n.3) in 2002 (Calhoun, 2002; Hennart et al., 2002; Luo and Mezias, 2002; Luo et al., 2002; Mezias, 2002a, b; Miller and Richards, 2002; Petersen and Pedersen, 2002; Sethi and Guisinger, 2002; Zaheer, 2002). This special issue has provided a powerful overview of the theoretical foundations of the LOFs concept and has guided scholars to the most relevant future research needs. Eden and Miller (2004) argue that cultural and spatial distances drive the extent of LOF that firms face abroad. A lack of embeddedness (Miller and Richards, 2002; Zaheer and Mosakowski, 1997) or of international experience (Calhoun, 2002) and insufficient host-market knowledge (Petersen and Pedersen, 2002) are also identified as additional drivers of LOFs. Although the predominant focus of past research has been on the theoretical foundations of LOFs (Luo and Mezias, 2002), researchers also have analyzed what determines the extent of LOFs. Similar to other authors (Calhoun, 2002; Ghemawat, 2001; Miller and Richards, 2002; Zaheer, 1995, 2002), Eden and Miller (2004) argue that cultural and spatial distances drive the extent of LOFs that MNCs face abroad. A lack of embeddedness (Miller and Richards, 2002; Zaheer and Mosakowski, 1997) or of international experience (Calhoun, 2002), high foreign competition (Miller and Richards, 2002; Zaheer and Mosakowski, 1997), and insufficient host-market knowledge (Petersen and Pedersen, 2002) are also identified as additional drivers of LOFs.

The liability of foreignness concept has been developed and incorporated in various theoretical streams, such as international expansion, social network theory, institutional theory, and the resource-based view. Researchers drawing on the concept of LOFs intensively apply theories of international expansion. Our research considers the Uppsala model of internationalization (e.g., Johanson and Vahlne, 1977, 1990), in which firms first internationalize to culturally proximate countries before expanding to more distant markets, assuming a lower degree of LOFs in culturally closer countries (Johanson and Vahlne, 2009; Johanson andWiedersheim-Paul, 1975). Internationalization process scholars (Johanson and Vahlne, 1977; Welch and Wiedersheim-Paul, 1980) highlighted the constraints of foreign entrants due to insufficient knowledge and psychic distance from the host country. In particular, the Uppsala model of internationalization argues that firms first internationalize to culturally proximate countries before expanding to more distant markets, assuming a lower degree of liability of foreignness in culturally closer countries (Johanson and Vahlne, 2009; Johanson and Wiedersheim-Paul, 1975). In this model, the LOF is related to the construct of psychic distance:

"internationalization frequently started in foreign markets that were close to the domestic market in terms of psychic distance, defined as factors that make it difficult to understand foreign environments. The companies would then gradually enter other markets that were further away in psychic distance terms.. This process had its origin in the liability of foreignness.. The larger the psychic distance the larger is the liability of foreignness" (Johanson and Vahlne, 2009, p.1412).

The internationalization process was originally viewed as a gradual and incremental process (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). Psychic distance can be defined as the sum of the factors that hinder or prevent the flow of information to and from the market (Johanson and Vahlne, 1977; Nordstrom and Vahlne, 1994; Eriksson et al. 2000): these factors include the above-mentioned differences between the country of origin of the company and the foreign country in terms of language, culture, politics and economic development (Johanson and Wiedersheim-Paul 1975). Finally, the importance of relational hazards is recognized in the revised Uppsala model by Johanson and Vahlne (2009).

In a social network theory view, where social ties are fundamental to the identification of business opportunities and to gain access to information and scarce resources (Granovetter, 1985; Ellis, 2000), network ties within the host-market business environment are understood to be an effective means to overcome the liability of foreignness (Rangan and Drummond, 2004; Cuervo-Cazurra et al., 2007).

Institutional theory, in which firms need to achieve external legitimacy (Suchman, 1995) ties in with the LOFs concept because MNCs unfamiliar with the institutional differences between their home country and their host country face additional costs (Eden and Miller, 2001, 2004; Petersen and Pedersen, 2002; Zaheer, 1995; Yildiz and Fey, 2012). Most researchers focus on institutional theory to investigate inter-organizational mimetic behavior. Mimetic isomorphism is found to be important for MNCs to gain external legitimacy in the host market and, thereby, to overcome LOFs (Zaheer, 1995). Finally, the resource-based view ties in with the concept of LOFs because firm-specific advantages might enable survival of overseas subunits and allow for higher foreign subsidiary performance. Recent literature (Cuervo-Cazurra et al., 2007) finds that costs of internationalization are higher if resources that generate firm-specific advantages cannot be transferred abroad, firm-specific resources in the home country turn out to be disadvantages in the host country, or the firm lacks complementary resources required to successfully operate in the hostmarket (Cuervo-Cazurra et al., 2007). Moreover, researchers have investigated the different resource endowments of internationalizing firms from developed and emerging markets. Miller et al. (2008, p.6) find that emerging market firms "*compete from a position of a double disadvantage: The firms incur additional costs of doing business abroad, and in addition, they are often resource poor compared to domestic firms in developed markets*".

While much of the international literature assumes a liability of foreignness attaches to the operations of foreign firms, little research has related this concept to issues involving cultural and governmental differences between countries. While liability of foreignness can be broadly defined to include all additional costs for the foreign entrant, such costs can be distinguished into two types (Calhoun, 2002): costs that may be easily identified and quantified and costs that may not be as easily identified. The majority of the work on liability of foreignness has focused on the former, while only few papers have focused on culturally driven aspects of the liability of foreignness. According to Calhoun

(2002), the question thus becomes how cultural differences manifest and impact on the foreign firm differently from native firms and differently in the different countries in which the foreign firm is operating. The attention given to the less identifiable sources of liability of foreignness generally refers to the fact that firms enter countries that are culturally similar as measured by concepts such as psychic distance or institutional distance (Johanson and Vahlne, 1977; Mezias et al. 2002; Guercini and Runfola, 2010).

1.6.1 Empirical investigation and problems of measurement

The effects of LOFs are predominantly determined using performance measures (Mezias, 2002; Sethi and Guisinger, 2002; Zaheer, 1995), as well as survival and exit rates of MNCs (Zaheer, 1995; Zaheer and Mosakowski, 1997). The argument in this sense is that coping with a liability of foreignness will depress profits, and that this in turn will cause affiliates to exit. Hence one way to establish that there is a liability of foreignness is to show that foreign firms have a lower survival rate than their domestic counterparts (Hennart et al., 2002). These studies have come up with mixed results, and one of the reasons has been that the relationship between poor profitability caused by a liability of foreignness on one hand, and exits on the other, is not as straightforward, and exits are due to many factors besides a liability of foreignness, such as strategic decisions and parents restructuring. Other measures include the probability of lawsuits (Mezias, 2002) and X-efficiency (Miller and Richards, 2002). Researchers on this topic also embrace broader theoretical perspectives. Drawing on the resource-based view (RBV) of the firm, Sethi and Guisinger (2002) argue that the ability of MNCs to correctly analyse foreign market characteristics helps to attenuate LOFs. Petersen and Pedersen (2002) draw on organizational learning theory to show the mitigating effects of learning and international experience on the degree of LOFs.

Although there is general agreement on the primary sources of liabilities of foreignness, identifying a specific liability of foreignness in a focal country remains a challenging task. A central operationalization challenge is finding measures that exclusively measure disadvantage. Moreover, there are other important methodological challenges (Denk et al., 2012), such as controlling for other liabilities unrelated to foreignness, matching foreign and domestic firms for comparison, not allowing different managerial approaches to be mistaken for liabilities of foreignness, and addressing locational issues within host countries. Zaheer (1995) pioneered these recent examinations arguing that when foreign firms use organizational practices that differ from the legitimate or locally accepted practices, they may experience liabilities of foreignness. She concluded that a liability of foreignness existed because profitability measures were lower for foreign firms in the currency trading industry. Zaheer and Mosakowski (1997) examined this industry over 20 years and concluded that a liability of foreignness existed because survival rates were lower for foreign firms. Matsuo (2000) examined expatriate use by Japanese firms operating in the US and argued that Japanese firms use numerous expatriates to overcome liabilities of foreignness, without discuss the positions held by these expatriates. Although these studies provide some evidence of liabilities of foreignness, the measures used are also affected by a foreign subsidiary's advantages. Since profits and survival rates are also strongly affected by firm-specific advantages, the same is if we consider income shifting or transfer pricing parent and subsidiaries. If we consider the use of expatriate, this may reduce spatial distance and cultural problems between parent and subsidiary, but it can also create a perception of a bias against local employees that can complicate efforts to reduce liabilities of foreignness. It can be argue that using dependent variables that aggregate foreign subsidiary advantages and disadvantages complicates interpretation of results.

Recognizing the challenge of using measures that clearly disaggregate firm-specific advantages and disadvantages, this challenge, Mezias (2002) investigated if labour lawsuit judgments represent a liability of foreignness for foreign firms operating in the US. This dependent variable avoids the aggregation problem because labour lawsuit judgments exclusively measure a clear, labour related disadvantage.

Another problem related to the attempt of measurement of the liability of foreignness arises from the need of a comparison: foreign firms are at a disadvantage relative to whom? While most view this as a comparison between foreign and domestic firms, domestic firms are not the only possible referent.

Examples are given by Buckley and Casson (1976) who compared host-country production with home-country production, or Eden and Miller (2001) who acknowledged different possible referents noting that a MNC can benchmark a foreign subsidiary's performance against any of its operations in other countries, in order to assess performance and determine resource allocation. To identify liabilities of foreignness, most part of the literature suggests that the appropriate comparison must be between foreign and domestic firms in the same host country.

Empirical investigations of liabilities of foreignness have largely ignored the importance of location within the host country. Even when location is not central to the primary liability being investigated, ignoring locational issues is potentially problematic because country performance often varies by region. Also, foreign investors may prefer different regions for FDI. To identify liabilities of foreignness, foreign and domestic firms should be matched according to location, in addition to any other liability-specific matching criteria. Recognizing the importance of locational matching, Zaheer (1995) and Mezias (2002) compared foreign and domestic firms operating in the same host-country locations. In addition to matching based on location, these studies also matched foreign and domestic firms by industry, which helps determine if a liability of foreignness varies based on industry.

1.6.2 In search for other liabilities: newness and smallness

Another important point is to control for other liabilities unrelated to foreignness that may affect foreign subsidiaries. A good example is provided by liability of newness, smallness and expansion. The first two types of liability are specifically related to age and size. firms can simultaneously face survival challenges and benefit from distinct advantages based on their newness. The liability of newness has become an important research agenda in organizational theory and organizational ecology research.

The liability of newness (Stinchcombe, 1965) refers to the fact that young organizations have a higher propensity to die than old organizations because of both their inability to compete effectively with established organizations and their low levels of legitimacy. In particular, the liability of newness was first theorized by Stinchcombe (1965) in a seminal paper: the author directed the attention of organization theorists to the age-dependent decline in organizational death rates and he argued that young organizations have a higher propensity to die than old organizations because of both their inability to compete effectively with established organizations and their low levels of legitimacy. The liability of newness indeed refers to the need of establishing the legitimacy of young organizations in general and during the years this thesis has come to occupy an important place in organizational ecology research (Carroll, 1983; Freeman, Carroll and Hannan, 1983).

The liability of newness raises the issue of legitimacy which directly affects the solution to all the operational challenges. Compared to incumbents, new entrants have to work hard to prove themselves in order to establish relationships with various stakeholders. The legitimizing process can be both expensive and time-consuming, substantially increasing the challenges faced by new firms both in the domestic and foreign markets.

The study of the liability of newness is often related to organizational mortality and business failures (Bruderl and Schussler, 1990; Kale and Arditi, 1998; Nagy et al., 2012). Research has investigated potential environmental, individual and firm-level factors contributing to start-up firms failure. At the environmental level, political and industry trends occurring at new venture founding may impact its long-term survival (Carroll and Delacroix, 1982; Le Mens et al. 2011). At the individual level, an entrepreneur's previous industry experience may also impact a new venture's survival odds (Preisendorfer and Voss, 1990; Thornhill and Amit, 2003). At the firm level, Stinchcombe (1965) introduced the term liability of newness to describe the intangible characteristics associated with organizational newness and discussed several reasons for their existence.

On one hand, liability of newness is related to processes that are internal to the organization, such as learning and developing trust and cooperation among organizational members. Internally, a start-up firm may lack operational routines, resulting in significant competitive disadvantages relative to more established competitors (Stinchcombe 1965). Organizational members often must learn unfamiliar roles, which requires significant time and other resources and, in turn, may lead to internal inefficiencies and missed opportunities; moreover, trust, cohesion, and understanding among the organizational members often takes time to develop in new ventures.

On the other hand, liability of newness is related to processes that are external to the organization (Kale and Arditi, 1998), such as establishing relationships with customers, suppliers and other relevant actors. Researchers have often noted that a start-up firm's lack of a "track record" makes it difficult for entrepreneurs to convince potential stakeholders (e.g. investors, customers, and suppliers) to conduct business with the firm (Singh et al., 1986). Without these external resources (e.g. capital, raw materials, relationships etc.), however, a start-up firm cannot survive. Extant research has frequently examined difficulties in establishing external ties, which often result from a new venture's lack of legitimacy with external stakeholders, as a major cause of organizational mortality (Dobrev and Gotsopoulos, 2010). Legitimacy, defined as an opportunity-enhancing property that results from stakeholders perceiving a firm as competent, effective, and worthy (Zimmerman and Zeitz, 2002), is regarded as an asset conferred upon start-up firms after stakeholder expectations have been met. Stakeholders' perceptions related to organizational age may also affect the likelihood of the success of the new venture. Age is defined as the chronological time that a firm has existed (Brüderl and Schüssler 1990). Nagy et al. (2012) argue that age is an imperfect and insufficient proxy for stakeholders' liability of newness perceptions for at least two reasons. First, liability of newness characteristics may manifest themselves differently in new ventures of the same age (Le Mens et al., 2011), depending for example on prior start-up experience (Politis, 2006). Second, although age can be measured fairly objectively, stakeholders may be unfamiliar with a new venture's actual founding date. Previous research suggests that a lack of perceived reliability, accountability, and availability with stakeholders may represent other liability of newness that may hinder start-up firms survival (Choi and Shepherd, 2005). Reliability is defined as the ability to systematically produce consistent results during multiple time periods (Hannan and Freeman, 1984).

Stakeholder reliability perceptions often result from factors including a firm's consistent product or service attributes. Entrepreneurs, therefore, must manage external perceptions of reliability (Guercini, 2003), especially if stakeholders value it more than other organizational characteristics like efficiency or innovativeness (Hannan and Carroll, 1995). Entrepreneurs must also counter perceptions of lack of accountability, defined as the ability to demonstrate assignment of responsibility related to a firm's operational activities and outputs, to overcome liability of newness. Guaranteeing outputs through certifications and warranties is a common manifestation of accountability. Availability is the condition of making products and services obtainable at the times they are required by stakeholders. Constraints related to organizational size and budgets may prevent a new venture's ability to supply products and information to meet demand (Aldrich and Auster, 1986).

Choi and Shepherd (2005) argue that the youthfulness of a start-up firms may also be considered an asset and not a liability, namely the asset of newness, that may enhance a new venture's survival odds. Specifically, the asset of newness represent stocks of intangible properties that encourage stakeholders to view new ventures as fresh, dynamic, flexible and innovative. Organizational flexibility, defined as the ability to respond to unanticipated changes and modify products and procedures to meet stakeholder demands (Feldman and Pentland, 2003) may be one important asset of newness.

Nagy et al. (2012) suggest that another newness characteristic, organizational energy, is a critical dimension of asset of newness. Organizational energy is defined as the perception that employees are working vigorously, enthusiastically, and tirelessly in the pursuit of organizational improvement. Specifically, start-up firms may have organizational members that have more intense positive, possibly passionate, feelings about their work and about their organizations. Following this line of reasoning, the newness dimensions are: legitimacy; organizational age; reliability; availability; accountability; organizational flexibility and organizational energy. Organizational ecologists often discuss the liability of newness in connection with the liability of smallness, even if not all organizations are born small (Aldrich and Auster, 1986; Bruderl and Schussler, 1990). The liability of smallness refers to limitedness in terms of resources and capabilities, and thus vulnerability to environmental changes. The assumption is that large new businesses have better survival prospects than small new businesses (Hannan and Freeman, 1983). Initial size may be measured in terms of either the amount of financial capital or the number of people employed at the time of founding (Aldrich and Auster 1986). A large pool of financial resources improves the chances of a new firm to weather the critical start-up period and to cope with random shocks from the environment. Furthermore, large organizations may have advantages in raising more capital, may face better tax conditions, and may be in a better position to recruit qualified labour. In addition, start-up firms' size is typically associated with a very limited market presence and little market power, putting small firms into a disadvantageous position in negotiations.

The liabilities of newness and smallness represent key challenges to manage in the domestic market, but they may also occur in the internationalization process of the firm, becoming a suffering and complicating factor. The liabilities of smallness and newness are often used among studies on the internationalization of SMEs and in particular those related to "Born globals" or "Global start-ups" (Oviatt and McDougall, 1994, 2005; Zhou et al., 2007; Zahra, 2005).

During the 1980's several studies document the existence of firms which are internationally oriented right from the birth. These firms represent a type of firms that, due to their high-tech product, may have to be international right from the beginning. Oviatt and McDougall (1994) labelled this type of firms International New Ventures (INV), defined as firms that right from the birth seeks a competitive advantage by using resources from several countries and by selling its products in several countries. In Knight and Cavusgil (1996), the term Born Global is discussed for the first time in a scholarly publication.

Moreover, Zahra (2005) confirm that the same liabilities, as proposed in the literature discussed above, may occur for international new ventures. The author argues that INVs usually experience three types of liability: the first relates to their newness and inexperience, which limits their access to resources and existing networks; the second liability stems from their size, as many INVs are small; the third liability arises from the foreignness of INVs, which means that they have to work hard to overcome barriers to entry, build links to their customers and suppliers, and gain the acceptance of potential customers.

The liabilities of smallness and newness are constructs often used among studies on the internationalization of SMEs and in particular those related to “born globals” for whom the liability of smallness seems not to be a suffering factor anymore (Oviatt and McDougall, 1994, 2005; Zhou et al., 2007; Zahra, 2005). The liability of newness and smallness can be considered as firm-specific liabilities. In the literature of internationalization, another firm-specific liability is discussed: the liability to expansion. Internationalization is often accompanied by an increase in the scale of a firm’s activities. Adding new operations, especially when they are geographically distant, requires the firm to deal with additional transportation, communication, and coordination (Vernon, 1977). To manage this, the firm needs spare resource capacity. If it does not have this capacity, the firm may have to stretch its existing resources so thinly that they become ineffective (Penrose, 1959). This is called the liability of expansion (Cuervo-Cazurra et al., 2007). A firm has a reduced risk of facing the liability of expansion when it has already developed experience and resources from operating on a large scale and coordinating dispersed operations before entering the new country. Firms that are already MNCs have usually developed the necessary resources to manage operations across many countries. Such firms can more easily manage the expansion into a new country. Additionally, a firm that is not yet international, but is product-diversified or manages businesses across several geographic locations in its domestic market, will also be less likely to suffer this difficulty. The liability of expansion is not exclusive to internationalization. A firm faces similar difficulties when it grows from being a local competitor to being a regional or national competitor (Welch and Wiedersheim-Paul, 1980), or when it diversifies into multiple industries. The coordination costs involved with internationalization, however, are usually higher than in a domestic context (Hitt et al., 1997; Vernon, 1977).

1.7 The liability of outsidership

As discussed above, the liability of foreignness has been developed in the in the internationalization theories, in particular in the Uppsala model by Johanson and Vahlne on the internationalization process of the firm, where:

"Internationalization frequently started in foreign markets that were close to the domestic market in terms of psychic distance, defined as factors that make it difficult to understand foreign environments. The companies would then gradually enter other markets that were further away in psychic distance terms.. This process had its origin in the liability of foreignness.. The larger the psychic distance the larger is the liability of foreignness" (Johanson and Vahlne, 2009, p.1412).

The internationalization process was originally viewed as a gradual and incremental process (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977). The network approach challenges this view by adding the fact that relationships are involved: firms may move and internationalize faster and, most importantly, adapt faster, due to a direct link, made of relationships and trust, into the network of the new environment. The challenge is to become an insider in relevant business networks.

A stream of research on business network is dominated by members of the Industrial Marketing and Purchasing Group (Ford 1997; Gadde and Mattsson 1987; Håkansson and Snehota 1995) and views markets as networks of inter-connected and interdependent actors who engage in exchange relationships (Håkansson, 1982).

Among others, the IMP approach has influenced the development of the Uppsala model and in particular its revisited version proposed by Johanson and Vahlne in 2009, where the construct of liability of outsidership have been introduced for the first time. When revisiting their original internationalization process model from 1977, Johanson and Vahlne (2009) emphasized the importance of interaction and networks. In this revisited approach, the influence of the market model, as interpreted by the market as network approach (Håkansson and Snehota 1995; Håkansson et al., 2009) derived from the studies carried out by the IMP Group scholars, is particularly strong. In particular, the stress is on the knowledge generated in the interaction with other actors (Guercini and Runfola, 2010):

"A large-scale empirical study of international marketing and purchasing of industrial products (the IMP project) that was carried out in the late 1970s and early 1980s by researchers from Sweden and four other European countries was based on the interaction approach.. Work done during the project demonstrated that close and lasting business relationships between suppliers and customers are indeed important, be they within a given country or between countries. IMP project studies also showed that such relationships usually involve a number of managers who coordinate the activities of the different firms, and who together create interrelated routines. Moreover, these relationships seem to develop through social exchange processes in which the firms involved enact the relationship interactively and sequentially.. As with the internationalization process model, the research done in the IMP project shows that relationships develop through a process of experiential learning whereby firms learn about the resources and capabilities of their counterparts, and gradually increase their commitments" (Johanson and Vahlne, 2009, p.1413).

The authors considered markets as networks of relationships in which firms are linked to each other in various complex and invisible patterns. Therefore, they argued that insidership in relevant networks is necessary for successful internationalization. In order to become an insider, firms need to gain trust from and develop relationships with members of a network, otherwise there is a liability of outsidership. Outsidership comes with problems of information constraints and uncertainties regarding network developments and opportunities that emerge in networks and business relationships (Hilmersson, 2013). The main problem of liability of outsidership is how to become a group member, or in other words, an insider. The liability of outsidership is a situation when a firm enters a business environment without knowing who the business actors are, or how they are related to each other. In other words, the liability of outsidership has to do with the uncertainty and difficulties associated with being an outsider in relation to a certain network. If a firm has the advantage of already being involved within one or several business relationships in the business environment, the firm is to be considered an insider, being insidership regarded as a necessary condition for access to market knowledge and to successfully develop foreign business.

It is proposed an ongoing process in the growth of the firm, in which the firm, from being an outsider, become an insider and overcome the liability of outsidership. In this process, firms, when entering new networks, start by using relationships with firms that already are engaged in the new markets or by building relationships with firms in that market. Next, they use those relationships for learning about the networks in the new market, building trust with firms in the network, and creating new knowledge in interaction with firms in the network. Much of that interaction is focused on identifying and developing new business opportunities to be exploited and the firm learns about and builds positions in the new market's business networks. Hence, the liability of outsidership is a question of gaining knowledge and thereby opportunities as a result of relationships (Vahlne and Johanson, 2013). In a resource-based view, a firm realizes that it suffers from the liability of outsidership and will then actively work toward creating relationships with others, both known and unknown, that own the resources the firm lacks. A firm is likely to make use of weak ties (Granovetter, 1973) that require a low amount of time, emotional intensity, intimacy, and reciprocity, so firms with a large number of weak ties will find it easier to overcome the liability of outsidership than will those that are engaged primarily in strong ties (Sharma and Blomstermo, 2003; Schweizer, 2013). These two perspectives of networks are not mutually exclusive: firms can be engaged in a hybrid model of business networks that combines some aspects from each (Chetty and Patterson 2002). Since its introduction, the construct of liability of outsidership has spurred studies by many scholars who have tried to highlight possible action to overcome such liability, focusing bot on SMEs and MNCs (Schweizer, 2013; Vahlne et al. 2012).

However, there are not many works that seek to operationalize the concept of insidership. An interesting contribution is that of Schweizer (2013) that focuses on SMEs and discusses how an SME actively overcomes liability of outsidership when internationalizing its activities, offering a process depiction consisting of four interrelated phases. The proposed process explains how a firm's internationalization process expands into new geographical areas through new networks. First, the firm must perceive its outsidership through internal and external triggers that should lead it to realize that it suffers from the liability of outsidership. Second, the firm undertakes one of three reactions to this realization, depending on several factors that may have an impact on the firm's reaction. During this phase, the firm re-evaluates its resources and capabilities in general and its existing relationships in particular. Third, the firm re-bundles its resources and capabilities. Fourth, the firm overcomes liability of outsidership by gaining access to a new network and can leverage opportunities identified in the new network.

Even Hilmersson and Jansson (2012) have questioned how SMEs can establish positions of insidership in foreign business networks. According to the authors, firms, becoming insiders in the foreign market, go through three distinct stages in the network entry process represented by three network structures, each structure characterized by the degree of insidership reached; the types of ties developed; the type of exchange taking place; and the degree of coupling in the three stages. The three network structures are: exposure network; formation network; sustenance network. In the exposure network, the focus of potential exporters[4] is to find hubs, through which to expose themselves to as many potential customers as possible. It is mainly a question of limiting the network being exposed to by linking up to certain entry nodes[5]. Thus, a potential exporter initially creates both information and social contacts to expose itself to various parties of relevance to the business in the new market. The aim is to find a position in the business network through the exposure network, mainly consisting of customers and intermediaries. In the initial, exposure, network stage of an entrant SME: the degree of insidership of the exposure network is low; the exposure network is characterized by many general and weak ties; the exposure network is dominated by information exchange; the exposure network is open and loosely coupled. In the formation network, exporters from mature markets develop businesses by gradually

[4] The authors distinguish from firms coming from mature and immature markets.

[5] For the definition of entry node, Hilmersson and Jansson (2012) draw on the "five-plus-five" stage model of internationalization developed by Jansson and Sandberg (2008), where firms gain international experience by establishing and developing relationships with business partners.

transforming certain weak ties into stronger ones, in particular with intermediaries found. Hubs like agents and their social networks are instrumental for the establishment of a number of customer relationships in the country. The organization set therefore gradually closes, which leads to the formation of the inter-organizational network, whereas the social network is a precedent to it. The formation network of the exporters from immature markets follows a similar pattern but is smaller and less complex, since it only involves direct relationships with a few large customers. The social network is less important, even usually being preceded by the organizational network. The goal in the formation network is to move forward with partners that were explored in the exposure network, and with whom sustainable business can be developed. But SMEs have now also gained enough network experiential knowledge such that new customers can be found. Therefore, in the formation network, SMEs exploit hubs to expand the network based

on the initial few nodes. Thus, in the formation network entering SMEs establish their positions in local market networks. In the second, formation stage of the network entry process: the degree of insidership of the formation network is intermediate; the formation network is characterized by specific ties that are growing stronger; the formation network consists of both information and social exchange; the formation network is a closing network. Finally, in the sustenance network exporters from mature markets establish themselves more firmly by forming a joint venture or establishing a subsidiary. Over the long run, the business requires more structured relationships to secure production, marketing and sales, logistics and after-sales service. Exporters from immature markets deepen their dyadic relationships through pursuing more efficient production and logistics, or by developing new dyads. In the sustenance network, the purpose is to move on with those partners with whom sustainable business can be developed, or develop new partners. In the final, sustenance stage of the entry process: the degree of insidership of the sustenance network is high; the sustenance network is characterized by strong ties; the sustenance network is dominated by social exchange in a closed network; the sustenance network is tightly coupled.

1.8 The IMP approach on business networks and interaction

Several times in the chapter the contribution of the Industrial Marketing and Purchasing Group has been mentioned as a theoretical foundation of the revisited Uppsala model. The Industrial Marketing and Purchasing Group (IMP Group) is an informal international group of scholars, primarily based in Northern Europe, concerned with developing concepts and knowledge in the field of business-to-business marketing and purchasing**.** The IMP Group is the largest group in the world dealing specifically with marketing issues in a business-to-business context. The IMP Group was formed in 1976 to develop and carry out cooperative research into the nature of the relationships between companies in these complex markets. As a result of a number of in-depth case studies carried out in France, Germany, Italy, Sweden and the UK a revised framework was proposed by the IMP Group to guide the development of research in business-to-business markets. This became known as the interaction approach, that takes the relationship as its unit of analysis rather than the individual transaction (Håkansson, 1982; Turnbull and Cunningham, 1981). The IMP group postulated a new approach to understanding industrial market dynamics. It was argued that the realities of business markets were more complex than those presented in a transactional view of market exchange, and the key elements of successful marketing and purchasing was the establishment and maintenance of interactive relationships. This led to challenges to those prevailing theoretical approaches (Ford and Håkansson, 2006): first, it was challenged the idea that business sales or purchases could sensibly be considered as isolated events, stressing that these transactions are simply episodes in continuing relationships between supplier and customer. Second, it was challenged the idea that marketing consisted of independent action by a supplier in constructing its marketing mix and projecting it at a passive market, instead interaction was observed between active suppliers and customers, both of which could be involved in determining, developing and implementing the transactions between them. A further challenge is the idea that customers (or suppliers) can be considered as a homogeneous, atomistic group: in an IMP perspective, companies interact with a relatively stable, heterogeneous and individually significant group of customers and suppliers. Finally, it was challenged the idea that marketing or purchasing processes can be considered separately, emphasising the similarity of the tasks in which both parties were engaged.

At first, and foremost, the research focused on focal relationships between two actors such as the buyer and seller, but thereafter it extended to also study links within the network and its surrounding actors (Anderson et al., 1994; Jansson, 2007). It was shown that companies had a limited number of strong business relationships with their most important customers and suppliers (Håkansson and Snehota, 1995). In these relationships, however, both the buyer and seller were active in initiating and maintaining the relationship (Ford et al., 2002). It was also shown that it takes time and resources to build relationships (Björkman and Forsgren, 2000; Johanson and Vahlne, 2003). When looking at relationships, these can be seen as "*the pattern of interactions and the mutual conditioning of behaviours over time, between a company and a customer, a supplier or another organization*" (Ford et al., 2003, p. 38). The relationship consists of learned rules and norms of behaviour, being the atmosphere within which individual episodes (e.g. negotiations, payments, deliveries etc.) take place. Each episode in turn is affected by and affects the overall relationship (Turnbull et al., 1996). Furthermore, relationships evolve over time and can be considered to traverse a series of stages characterised by increasing mutual adaptation, reduced "distance" and increasing commitment (Ford, 1982).

The idea that interaction between individually significant actors is a primary characteristic of the business landscape, is a basic observation for the theorists of the "market as network approach" (Håkansson and Snheota, 1995) and in the IMP studies (Håkansson, 1982). The focus is not on what's going on within a company, but between companies that constitutes the doing of business. All companies simultaneously interact with several others and interaction between any two companies may in this way affect their interactions with these others, and this gives the business landscape a shape that can be depicted by the network metaphor (Håkansson et al., 2009). Dyadic interactions are only one part of the business world since dyadic relationships between organizations are embedded in a wider web or network of interconnected and interdependent relationships. Hence, business networks are defined as sets of connected business relationships between firms (customers, distributors, suppliers, and competitors) doing business with one another. Networks are coordinated by interaction among actors in the network (Håkansson et al., 2009): the interaction approach states that the marketing and purchasing of goods is seen as an interaction process between two parties within a certain environment (Hakansson, 1982). In this view, networks are seen as informal and organically evolving through circumstances and interpersonal relationships, and dynamic in their nature (Guercini and Runfola, 2012; Chetty and Patterson, 2002).

Interaction is a process over time, where connections (more or less systematic and conscious, and between different actors such as customers and suppliers, but not only) develop between different interaction processes in which the two companies are involved: through participating in a single interaction process with a single counterpart, a company becomes related to a set of many others. Ford et al. (2008) discuss that "…*If we recognise the existence of a particular network for the first time, then we are simply isolating part of a pre-existing and wider network. Similarly, neither a new actor nor a newly developed relationship creates a new network. Instead, new actors and new relationships always emerge from something that pre-exists them and there is always a history behind them. Each new actor or relationship is always related to others that already exist*" (Ford et al., 2008, p.16). Continuing interaction with others provides some kind of stability in a world of unpredictable outcomes and unknowable influencing factors. In this way, interaction is both a dynamic and a stabilizing force. Therefore, interaction has been conceptualized as "*the substantive process that occurs between business actors through which all of the aspects of business: material, financial and human and all of the elements of business: actors, activities and resources take their form, are changed and are transformed*" (Ford et al., 2008, p.12).

One important consequence of this conceptualization is that business interaction should never be seen simply as communication or negotiation, even if these may be important aspects of it. The greater the involvement of a company in a particular interaction, the greater will be the effects on its own activities, on its resources and on the company itself. This view of business interaction has been refined in the ARA model. The ARA Model (Håkansson and Johanson, 1992) provides a conceptual framework of the process and outcomes of interaction, based on empirical studies in the IMP research stream. The model suggests that the outcomes of an interaction process (or the content of a business relationship) can be described in terms of the three layers: Actor Bonds (Håkansson and Snehota 1995), Activity Links (Fredriksson and Gadde 2005; Gadde 2004; Gadde and Håkansson 2001) and Resource Ties (Håkansson and Waluszewski 2002). The model also suggests that each of these three layers are inter-connected and each affects and is affected by the constellation of resources, pattern of activities and web of actors in the wider network. The Actor Layer relates to the interpersonal links developed between individuals through interaction. Bonds that arise between actors may be more or less strong and will influence to varying extent what the individuals involved in a process perceive as possible and feasible directions for that interaction. Actor bonds are important for the "learning" and "teaching" of counterparts about opportunities and solutions, as pointed out in some of the studies of learning in relationships (Håkansson and Johanson 2001). The Activity Layer relates to the integration and coordination of activities that may develop between actors. The Resource Layer relates to how the two actors' resources may become more or less adapted and more or less mutually tied together as their interaction develops. Resource ties arise as the two parties in a relationship confront and mutually adapt their resources over time. The ARA-model also takes into account another aspect of business relationships, namely that actor bonds, resource ties and activity links have effects not only on what is happening between the actors but also within the actors themselves and within their other relationships.

Therefore, interaction between two actors, connected in a network of relationships and interdependencies between activities and resources, acquires centrality both to understand the dynamics of the network, and to understand how companies should compete (Runfola, 2012). With reference to the dynamics of the network, there are three paradoxes: the first stresses that a company's relationships are at the same time enablers and barriers to firm's ability to change and innovate. The second paradox is related to the fact that a company's relationships are the result of the firm's decision and actions, but, at the same time the company itself depends from its relationships and how they evolve. The third paradox considers the fact that the level of effectiveness and innovativeness of the firm's network is inversely proportional to the degree of the firm's control on the network. As a result of these paradoxes, changes in business networks are the result of changes that occur within the interconnections between companies. With reference to the centrality of interaction in order to understand how to compete, in the market as network approach cooperation and mutual adaptation can explain the way in which companies do business in the network, rather than the analysis of competition theorized in other managerial contributions, such as the works of Michael Porter (1980, 1985) on competitive advantage and competitive strategies. Interaction is therefore the key to understanding that the company can achieve success if it acts through relationships, being itself the product of its relationships (Snehota, 2003). In this sense, on the level of competition, firms should be able to operate in the market through new relationships development, strengthening or weakening of existing relationships, relationships ending.

This brief analysis of the key points of the IMP approach in terms of business networks and interaction, has allowed us to fully outline the theoretical foundations of the research. These are:

- the Uppsala internationalization process model and its evolution, from an incremental process to a business network view of the internationalization process;
- liabilities in internationalization, specifically foreignness and outsidership;
- the IMP perspective, in particular the definition of business network and the interaction approach.

The conceptual platform of this work leads us to formulate a theoretical framework that will be presented in the next chapter.

CHAPTER 2. EMPIRICAL CONTEXT, RESEARCH QUESTIONS AND METHODOLOGY

2.1 The empirical context of the research

The empirical context of this work is represented by stores opening in the textile and apparel sector (t/a). The textile and apparel sector, and more in general the fashion industry, has attracted the attention of researchers for many years. The interest in this area has increased lately, mainly due to the growing complexity within this dynamic context. This is a sector where the competition is fierce, especially within the retail environment (Newman and Cullen, 2002). The dramatic shift in scale and power of major retail chains in the market, the advent of own brands retail networks, the nature of sourcing and supply chain (SC) decisions which are increasingly global in nature, are just some of the issues that have contributed to this complexity. Fashion markets are increasingly synonymous with rapid change and, as a result, commercial success or failure is largely determined by the organization's flexibility and responsiveness (Christopher et al., 2004). The aim is to analyse some aspects of the internationalization of firms that undertake a process of stores opening as entry mode strategy in foreign markets. The theme of stores opening is central to a large and growing number of firms in the fashion system (clothing, but also to other sectors), and recent researches on the fashion system has showed the central role of a direct distribution channel to overcome traditional commercial intermediaries and to penetrate new geographic markets, in particular those characterized by high growth rates of consumption. Fernie et al. (1997, 1998) and Moore et al. (2000) focus on the luxury/designer fashion sector and show how fundamental stores, in particular flagship stores, are to the international development of this sector. Each store plays also an important role in the international retailing also from a learning point of view because of its embeddedness in local cultures and consumption habits. Each retail store is potentially an autonomous center of innovation, embedded in and necessarily shaped by a unique place (Currah and Wrigley, 2004).

A first aim of this research is to present some reflections on a phenomenon that seems to be unexplored in the international management literature: the international expansion of firms through the opening of retail stores in foreign countries. Indeed, despite the by-now many years of literature contributions aiming to shed light on various aspects of the internationalization of firms, little attention has been focused on the retail development of firms, especially with regard to the manufacturing sector. As underscored by Hutchinson et al. (2009), in the literature that has dealt with the internationalization of retail businesses, most studies have focused mainly on the foreign development of large, rather than small, retailers. In addition to the central role of retailers in t/a, we must not forget that there is a large number of manufacturing firms that develop a significant presence in retail, using the store as a way of affirming the brand image both nationally and internationally (Runfola, 2012). The opening of directly managed stores seems to be a particularly widespread strategy today in textiles and apparel, and is favoured not only by firms whose origins lie in the apparel manufacturing but also by operators who entered the market via the route of the production of semi-finished textile products. Furthermore, the opening of directly owned stores has proven to be a successful development strategy for firms that already have a network, either of their own or affiliated, and this strategy has resulted in massive investments, which at times have led to greater emphasis on control through ownership rather than affiliation.

Finally, the empirical research, in particular in the Italian fashion system, carried on by the author and other researchers in the field, has shown that the opening of stores falls deeper and deeper into the practices of companies: in this sense, there is a gap between the business practice and the literature on the topic, and this makes the phenomenon of stores opening significant and worthy of investigation. Moreover, the internationalization process through stores opening has been studied (Guercini and Runfola, 2014; Hutchinson et al., 2009) by the authors, resulting in findings that highlight the advisability of formulating a research framework for this phenomenon, which seems to have attracted little attention in the international business literature.

This chapter covers three main aspects of the thesis: the empirical context, the research framework and research questions, the methodology used in the thesis. The four following paragraphs are functional to a study in depth of the empirical context and allow us to give define some key concepts and highlight some of the phenomena that characterize the empirical context under study. In particular, we focus on:

- The literature on retail internationalization, with the aim to highlight the main areas of research, recurring issues, types of companies under study, the applicability of the main theories on internationalization to the peculiarities of the retail environment.
- The internationalization of fashion retailing, since this is the specific object of the thesis and fashion retailers are consistently recognized as the most prolific of international retailers, being in this sense worthy of further investigation. The focus is particularly on the entry mode strategies by fashion (and luxury) retailers that appears to be under-investigated in the literature.
- Vertical integration in the textile and apparel sector, specifically integration processes between manufacturing and retailing, in which one may find situations that involve integration from upstream to downstream and/or forms of external rather than internal growth. The aim of the paragraph is to highlight the transition from a traditional apparel distributor to the "industrial retailers" that comes about through a strategic process of vertical integration of the typical functions of clothing manufacturers; in this sense, it appears difficult to make a clear-cut separation between the two categories - manufacturing or retail firms - but it is possible to determinate nevertheless generally which is the predominant of the two activities.
- A taxonomy of categories of international fashion retailers and retail formats.

The phenomena highlighted and the definitions given, as well as the study of literature did in the first chapter, let us at this point to build a research framework that combine the theoretical platform of the research and the empirical context consisting of the phenomenon of stores opening abroad, and to formulate research questions presented in section 2.2. The next section presents the methodological review, stating the qualitative methodology adopted in the thesis, which is the case analysis; we delineate the main characteristics and possible limits of the methodology used and contextualize the use of this methodology in a business network view, highlighting the difficulties and tools available to the researcher.

The chapter concludes with the research strategy adopted in the thesis, which consists of two phases: a secondary research and a case analysis of stores opening of fashion firms. More precisely, the first phase is represented by a secondary research which provides the examination of news related to stores opening in foreign countries by fashion brands in the period 2011-2013. The aim is to produce a database in which to detect, for each opening: the date of realization; the firm/brand associated with the operation; the country/city in which the openings are made; the number of stores; the type of format; some notes on the operation. In the second phase of the research we proposed a multiple case study of luxury/fashion firms that have opened stores in foreign countries.

2.1.1 Retail internationalization

There is now a developed body of knowledge on the internationalization of retail operations (Dawson, 1994; Sternquist, 1997). By the end of the 1980s the number of publications on this topic were few. Recently, more than 20 years later, the area is rich in articles that address the subject of international retailing. In the late 1980s a wave of international retail activity had begun to build and, in the emerging consumer society, retailers were increasingly capable of addressing the challenge of international activity because of their increasing market orientation (Piercy and Alexander, 1988), their operational size (Treadgold and Davies, 1988) or their brand strength (Alexander, 1989, 1990a, b; Williams, 1992a, b). This type of activity generated academic interest with a first emphasis on the identification of the type of activity and the characteristics of the international retailer. The works of Mitton (1987), Alexander (1989), Hamill and Crosbie (1990) and Robinson and Clarke-Hill (1990) are good examples of this research activity mainly aimed at observing and mapping international retailing activity, as did the work of Burt (1989), Hallsworth (1990) and Pellegrini (1991): these studies are developed from the previous research carried out in the USA in the early 1960s, whose concern was the need to build a better understanding of international retail activity in a global market where US retailers appeared to have distinct advantages compared to other markets less developed in their retail structure (Hollander, 1970). From the late 1980s onwards, a number of research activities, such as those carried out by Treadgold (1988) and Salmon and Tordjman (1989), started to address the nature of retail development within the international environment, and provide an analytical framework. These lines of enquiry continued to develop or to be revisited throughout the 1990s, when one important focus of the literature became the direction of expansion and the advantages in global markets, as well as a growing interest in international activity by retailers based in Europe (Burt, 1989, 1993; Tordjman, 1988; Robinson and Clarke-Hill, 1990). In the 1990s research in this area was consolidated and key themes began to emerge and be defined: international distribution strategies (Fernie, 1992, 1995), motivational structures (Alexander, 1995), patterns of geographic expansion (Burt, 1993; Davies and Fergusson, 1995), market positioning (McGoldrick, 1995). By the late 1990s, the emphasis had changed and attention was increasingly drawn to the conceptualization of the process and how international retailing activity fitted within conceptualizations of international business previous assumptions in the wider literature (Sternquist, 1997; Vida and Fairhurst, 1998; Doherty, 1999; Alexander and Myers, 2000; Vida et al., 2000). The retail literature in part mirrored the issues of ownership advantage and location considered by Dunning (1981). Likewise the stages in the internationalization of retailing identified by Treadgold (1991) from a retail perspective found a match in the context of the stages approach to internationalization (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977; Cavusgil, 1980). In particular, the incremental internationalization process and the "establishment chain" suggested by the Uppsala model (1977) have found support in the early international retailing literature (Treadgold, 1990; Pellegrini, 1994). The international movements of large multinational retailers have provided much support for this perspective and empirical studies have found multinational retailers to pass through phases in their international development and seek more familiar environments before moving on to distant markets (Treadgold, 1990). Although the stage theory of internationalization have gained considerable support in international retailing literature, in more recent studies it has also attracted significant criticism. It has been found that retailers, in general, do not always follow a progressive path to internationalization: stores opening implies a high investment and a high degree of resource commitment, but it represents a common entry mode chosen, for example, by firms in the fashion industry as the first step to sell their products in a foreign market. Furthermore, the networks and relationships between firms and foreign business partners may lead to the spontaneous development of new expansion opportunities, causing a rapid rush of international activity (Hutchinson, Quinn and Alexander, 2006). This seems to be more consistent with the revisited model (Johanson and Vahlne, 2009) in which business relationships represent a mean to overcome the liability of outsidership.

However, the debate on the appropriate manner in which to address the internationalization process has begun to develop along a continuum between the positions expressed by Dawson (1994) and Sternquist (1997). According to Dawson, there is an indirect relationship between the applicability of theories developed with reference to the industrial sector. In contrast, Sternquist (1997), in her Strategic International Retail Expansion model, argues that there is a direct applicability of conceptual frameworks developed outside the retail sector, such as the Dunning's (1981) OLI approach. Research published by Vida and Fairhurst (1998) and Sternquist (1997) has sought to provide a conceptual framework from which to understand the underlying process of retail internationalization by drawing upon the wider management literature focused upon internationalization and applying it to the retail industry. Alexander and Myers (2000) search for a synthesized approach to the understanding of the internationalization process and integration of retail international theory within broader economic and international business frameworks. Anyway, while retail specific research work has established an understanding of the activities and the pressures and tensions that have influenced international activity, a suitably developed conceptual framework has not been achieved, since the study of retail internationalization has tended to focus on a number of issues rather than an all-encompassing conceptualization of the process. This conceptualization process has given rise to the need for more detailed analysis of different aspects of the internationalization process and management activity. Consequently, the last ten years have seen an emphasis on operational aspects of international retailing such as market selection

(Gripsrud and Benito, 2005; Myers and Alexander, 2007; Swoboda et al., 2007) and market entry method (Doherty, 1999, 2000, 2009; Quinn, 1999; Doherty and Alexander, 2004, 2006; Alexander and Doherty, 2004; Palmer and Owens, 2006; Huang and Sternquist, 2007; Park and Sternquist, 2008). The process of divestment within international retail process has also been investigated (Alexander and Quinn, 2002; Burt et al., 2002, 2003, 2004; Wrigley and Currah, 2003; Palmer, 2004; Alexander et al., 2005; Palmer and Quinn, 2007). The internationalization of large multinational retailers is well documented and much research attention has been given to their motives and strategies for expansion. Yet, no research in this field has specifically addressed the internationalization of small- to medium-sized companies operating in the retail industry. The theoretical insights from the literature revealed important gaps in extant research, which relate to the barriers, stimulants, drivers, facilitators, process, and market entry strategy of retail SMEs internationalization (Hutchinson et al., 2006). It is interesting to note that the majority of studies have focused, either implicitly or explicitly, on the activities of large retail organizations (Alexander, 1990; Williams, 1992b; Sparks, 1995; Arnold and Fernie, 2000). Despite this orientation in the literature towards large retail operations, various authors have shown that, with respect to the retail sector, size is by no means a significant impediment to internationalization (Hollander, 1970; Williams, 1991; Vida et al., 2000). In this sense, the fact that dynamic smaller retailers with strong concepts, formats and products have shown themselves capable of rapid international growth has been essentially ignored in the literature. Therefore, empirical research and academic review of small- and medium-sized international retailers merits attention in the literature. SMEs are differentiated from larger companies not only in terms of physical size (employees, sales turnover and number of stores), but also in terms of managerial, financial and operating characteristics. Internationalization involves a high degree of risk and SMEs have more limited resources to cope with the downside of foreign expansion (Buckley, 1989). Therefore, the obstacles impeding international development for SMEs can be summarized as strategic, operational, informational and process-based restrictions (Morgan and Katsikeas, 1997). However, the presence of international stimuli – those motivating factors, such as international strategy, entrepreneurial vision/experience, firm networks and external assistance. which over-ride these obstacles – is a driver and facilitator of foreign expansion. The international experience and orientation of the owner-manager or entrepreneur of a firm can also be viewed as a driver of SME internationalization. (Miesenbock, 1988; Reuber and Fischer, 1997; Burpitt and Rondinelli, 2000). In the case of international SME studies, competitive advantage may be defined not only by internal resources, but also by interaction and relationships with other firms (Johanson and Mattsson, 1988; McKieran, 1992; Coviello et al., 1998; O'Farrell and Wood, 1998). It has been argued that social and business networks have the potential to act as catalysts for international business expansion (Coviello and McAuley, 1999). Not only can networking overcome internal resource deficiencies, but yield access to knowledge and experience absent within the firm (Vida et al., 2000). These may be both informal and formal contacts in key and target markets, ranging from friendship and family links offshore to contacts with business and government organisations (Coviello et al., 1998).

It has been suggested that the process of international expansion for SMEs is actually a process of change (Piercy, 1982) and more casual in approach for business service firms, compared to manufacturers (O'Farrell and Wood, 1998). Research studies have shown that the process of international expansion adopted by SMEs is neither predetermined nor systematic (Lanzara, 1987; Bell et al., 2001) and is characterized by a lesser degree of determinism and a more active role given to the firm (Welch and Luostarinen, 1988; Dalli, 1994). These criticisms of the stages model are particularly relevant in the context of international retail SME expansion, whereby retail firms are faced with a selection of entry modes which facilitate rapid expansion and the bypassing of the various stages in the expansion process. It has been found that retailers, in general, do not always follow a progressive path to internationalization but often scale down their international operations with a view to either progressive de-internationalization or perhaps further activity in the future (Alexander and Quinn, 2002). Furthermore, the networks and relationships between smaller retail firms and foreign business partners may lead to the spontaneous development of new expansion opportunities, causing a rapid rush of international activity. Moreover, international development for smaller retailers may not always be confined to geographically and culturally close markets, but rather the specialist market dimensions of the company's products can permit retail SMEs to access opportunities in new markets regardless of cultural diversity. Likewise, small- and medium-sized retailers seeking international development, and empowered by a globally relevant brand, format and planning flexibility, may have access to opportunities in markets not necessarily culturally or geographically proximate (Alexander and Quinn, 2001).

International firms can choose between various market entry modes for foreign markets depending on the amount of resource commitment available, extent of risk, potential for returns and degree of control required (Yip et al., 2000). Retail companies would appear to have a broad selection of market entry modes at their disposal, including exporting, licensing, in-store concessions, franchising, joint ventures, and partly or wholly owned direct investments. In the literature, it is discussed that SMEs, on the other hand, have a more limited range of international entry modes to choose from, a narrower operational base from which new international activities can be taken (Papadopoulos, 1987; Benito and Welch, 1994) and, therefore, generally avoid entry modes that require greater resource commitments (Erramilli and D'Souza, 1993). Lower cost and control entry modes such as licensing and exporting/wholesaling directly to the market are attractive methods of entering a foreign market with less financial commitment. While licensing offers inexpensive yet "fast track" international expansion, it may not be appropriate for retailers with distinct ownership assets (Sternquist, 1997). A retailer must have built a successful product brand, if the brand name is to be sold or licensed to the market (Davies, 1992). Whereas, wholesaling has been found by fashion retailers to be an effective preliminary method of foreign market entry in terms of a low-risk means of generating cash flow, customer loyalty and market intelligence (Moore et al., 2000). Networking and partnerships can provide smaller firms with both the competitive advantage and the option of resource-sharing entry methods to facilitate international expansion (Vatne, 1995; Rutashobya and Jaensson, 2004). Franchising has provided retailers such as Body

Shop and Benetton with a route to expansion that is less costly and risky than joint ventures or acquisitions (Alexander and Quinn, 2001). Ideally, franchise operations are an innovative way to combine the advantages of larger business, such as economies of scale and product development, with the advantages of small-scale entrepreneurship (Sanghavi and Pavlin, 1996). However, franchising should not be considered a straightforward option for small companies, it has been argued that smaller retailers are less likely to be successful in SME retailers attracting potential franchisees compared to more established franchisers that have well-known brands (Alon, 2001). It has also been shown that while franchising facilitates rapid international expansion for small firms, the restrictive effects of small size, in terms of support provision and the limited resources to control and monitor diverse international operations, may become highly significant over time as the international network expands (Quinn, 1999). Higher degrees of control modes (at a high investment cost), such as wholly owned subsidiaries and flagship stores are also appropriate for retailers with highly proprietary products or processes. According to research by Moore et al. (2000) luxury and fashion brands typically open flagship stores within premium shopping streets across the world (such as Bond Street in London and Fifth Avenue in New York) as the vital component of their marketing communications strategy. Although costs are very high and turnover is modest, the flagship store supports wholesale business and secures reputation of a brand.

2.1.2 The internationalization of fashion retailing

In the last 15 years the type of retailer under detailed study has widened to include various international activity. Earlier work tended to emphasize the internationalization of food retailers and the larger formats, but the late 1990s witnessed the emergence of research on fashion retailer. Fashion retailers are consistently recognized as the most prolific of international retailers (Hollander, 1970; Fernie et al., 1998; Doherty, 2000; Moore et al., 2000; Wigley and Moore, 2007). The interest in this area has increased lately, mainly due to the growing complexity within this dynamic context. This is a sector where the competition is fierce, especially within the retail environment (Newman and Cullen, 2002). The dramatic shift in scale and power of major retail chains in the market, the advent of own brands retail networks, the nature of sourcing and supply chain (SC) decisions which are increasingly global in nature, are just some of the issues that have contributed to this complexity. Fashion markets are increasingly synonymous with rapid change and, as a result, commercial success or failure is largely determined by the organization's flexibility and responsiveness (Christopher et al., 2004). Hence, researchers have focused their attention on the management of the SC (Christopher and Towill, 2001; Guercini and Runfola, 2004). Within this context, coordination of activities between actors along the SC is a crucial issue, together with the fact that many fashion manufacturers are pursuing downstream integration through direct operated retail networks or partnership.

The attention to the processes of internationalization in this context is inevitable. Fernie et al. (1997, 1998) focused on the internationalization of the luxury brand, an area that evolved further with the publication of work by Moore et al. (2000) and Moore and Birtwistle (2004). This continues into the present with recent research focusing on the activities of international fashion retailers, as well as research which explores critical success factors (Wigley et al., 2005; Wigley and Moore, 2007) entry method (Doherty, 2000, 2007, 2009; Moore et al., 2010). The research interest on the fashion sector has been developed in parallel to research on the internationalization of the large format retailers such as Wal-Mart (Arnold and Fernie, 2000); smaller or niche retailers have also garnered some attention (Hutchinson et al., 2007). Implicit in many of these studies is the entry mode strategy adopted by luxury/fashion retailers when entering foreign markets. Entry mode strategy is typically defined as an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country (Root, 1987). Entry mode research has been dominated by studies on the manufacturing sector and, to a lesser extent, the service sector, with little acknowledgement of the specifics of retail firms (Erramilli and Rao, 1993; Sarkar and Cavusgil, 1996; Kumar and Subramaniam, 1997; Doherty, 1999, 2000). According to Dawson (1994), retailers can enter foreign markets via internal expansion, merger or takeover, franchising, joint venture and through a non-controlling interest. However, when we examine the specifics of the luxury/fashion sector it is clear that entry modes outside this “norm” prevail such as flagship stores (Moore et al., 2000;) and guerrilla stores (Doyle and Moore, 2004). Entry mode research has been dominated by studies on the manufacturing sector (Anderson and Gatignon, 1986; Kogut and Singh, 1988; Hill et al., 1990; Agarwal and Ramaswami, 1992; Gannon, 1993; Sarkar and Cavusgil, 1996; Kumar and Subramaniam, 1997; Brouthers, 2002). Much of this research focuses on the transaction cost and institutional/agency implications of choosing one particular entry mode over another or why a multi-modal strategy would be adopted. According to Hill et al. (1990), much of this international business literature focuses on three distinct modes of entering a foreign market: “*licensing (or franchising), entering into a joint venture and setting up a wholly owned subsidiary*” (p. 118). Each of these entry methods is consistent with a different level of control, in terms of authority over operational and strategic decision-making, and resource commitment, in terms of dedicated assets that cannot be redeployed to alternative uses without loss of value. A considerable body of knowledge also exists on entry mode strategy amongst service firms (Erramilli and Rao, 1990, 1993; Erramilli and DeSouza, 1993; Contractor and Kundu, 1998; Ekeledo and Sivakumar, 1998; Dev et al., 2002; Brown et al., 2003). These studies examine entry mode choice decisions and explore the various factors that influence service firms to choose entry modes when entering foreign markets, focusing mainly on internationalising US service firms (Erramilli and Rao, 1990, 1993; Erramilli and DeSouza, 1993).

Therefore, despite this growing body of literature little, if anything, can be gleaned about entry mode strategy of retail firms. That said, the entry modes in question reflect those investigated in the studies on the manufacturing sector – that is, wholly owned subsidiary, joint ventures, franchising, licensing and exporting. Like their counterparts in manufacturing and other service industries, international retailers are faced with a number of choices for international expansion and may well use more than one method in developing international operations. Hollander (1970) offers one of the first reviews of entry modes used by international retailers. He classifies them as purchase of existing stores and firms, participation in joint ventures, establishment of new foreign subsidiaries and franchising. Subsequently, Dawson (1994) provides a summary of the main mechanisms international retailers can use to enter new markets. They are: internal expansion, in which a company opens individual shops using in-company resources; merger or takeover with the acquisition of control over a firm in the host country; franchise type agreements in which the franchisee in the host country uses the ideas of the franchisor based in the home country; joint ventures which may take a variety of forms for the joint operation of retailing, including in-store concessions between a firm in the host country and one in the home country; and non-controlling interest in a firm in the host country being taken by a firm in the home country. Quinn (1996) acknowledges additional entry modes as retail alliances, mail order, licensing, management contracts, exporting merchandise to foreign retailers and duty-free shopping. Those highlighted by Hollander (1970) and Dawson (1994), however, tend to be the most popular and widely employed. Studies have tended to focus on aspects of a narrow range of entry modes such as mergers and acquisitions (Wrigley, 1997, 1998), joint ventures (Palmer and Owens, 2006) and franchising (Quinn, 1998, 1999; Doherty and Quinn, 1999; Quinn and Doherty, 2000; Doherty and Alexander, 2006; Doherty 2007, 2009). Broadly speaking, those studies that focus on merger, acquisition and joint venture activity, tend to focus on the food sector and larger formats. When research on the internationalization of the fashion sector is examined, however, franchising and wholesaling entry modes are particularly prevalent (Doherty, 2000; Moore et al., 2000). Starting from the classification given by Moore (2000), who places international fashion retailers within four categories (general fashion retailers; general merchandise fashion retailers; product specialist fashion retailers; luxury fashion retailers), the internationalization of product specialist fashion retailers has received minimal attention in the literature. Much attention has been given to the internationalization activities of general fashion and general merchandise fashion retailers: evidence shows that these firms predominantly engage in low-cost/low-risk entry methods such as franchising, licensing and wholesaling (Moore, 1998; Doherty, 2000; Petersen and Welch, 2000; Doherty and Alexander, 2004; Doherty, 2007). An interesting work is that of Doherty

(2000) that employs a qualitative, cross case analysis of UK-based international fashion retailers in order to examine the factors that influence these firms in their choice of entry mode when moving into overseas markets. She concludes that entry mode strategy emerges over time as a result of a combination of factors such as history, experience, finance, opportunistic approaches and changes in management structure. Further research on UK-based general fashion and general merchandise retailers by Doherty and Alexander (2004) also focus on the franchising entry mode by exploring the relationship building aspects of international retail franchising in the context of relationship marketing, using the relationship marketing paradigm and the marriage analogy[6]. Petersen and Welch's (2000) study of the international franchising experiences of the Danish general fashion retailers Carli Gry and InWear explores how these firms moved into international franchising as a result of a move from wholesaling and subcontracting activities into retailing. Moore (1998) discusses the entry of the French fashion retailers Morgan and Kookai into the UK via wholesaling before subsequently entering into franchise agreements with a master franchisor. Hence, franchising, wholesaling and, to a lesser extent, licensing are characteristic of research on general merchandise and general fashion retailers. Fernie et al. (1997) and Moore et al. (2000) mention flagship store as entry method and an integral element of luxury designer retailers internationalization.

In summary, entry mode research is dominated by studies examining the internationalization of manufacturing firms and, to a lesser extent, service sector

[6] The work by Doherty and Alexander (2004) draws on the research carried on by Morgan and Hunt (1994) on different forms of relationship marketing and on the work of research focused on different interactions between businesses and between businesses and consumers. Central to relationship marketing theory is the concept of mutually beneficial exchange and a history of interaction and exchange (Gronroos, 1994). While the majority of recent attention to the relationship marketing paradigm has been in the context of business-to-consumer markets (O'Malley and Tynan, 2000), the work by Doherty and Alexander (2004) focuses on the business-to-business context of the franchisor-franchisee relationship in international fashion retailing. According to the authors, the language of relationship marketing is the language of social relationships. As Yau et al. (2000) recognise, relationship marketing is the formalisation of long recognised and exploited forms of social interaction. Relationships develop through interaction and interpersonal interaction facilitates the creation of social relationships and emotional bonds through enhancing trust, commitment, communication and so on (O'Malley and Tynan, 2000). Thus, the values of "Bonding", "Empathy", "Reciprocity" and "Trust" (Yau et al., 2000) lie at the heart of extended social co-operation. Therefore, it is not surprising that academics have considered relationship marketing through the metaphor of long-established interpersonal and social relationships such as marriage.

firms. This body of work, however, does not address the specifics of internationalization by retailers. When we examine the international retailing literature, it is clear that a wide range of entry methods have received some limited academic attention across the range of retail sectors. However, the luxury/ fashion sector stands apart from other retail sectors due to the specific characteristics identified by Moore and Doherty (2007). It is reasonable to assume that due to these specific issues, entry mode strategy for these firms will also differ from more mainstream fashion retailers.

2.1.3 Vertical integration in textile and apparel sector

The textiles and apparel sector (t/a) has long been characterized by an elevated degree of complexity, that can partly be traced to behavioral patterns influencing the final purchaser's buying and consumption models, which cause considerable difficulty in forecasting demand when defining apparel collections, and partly also to the short life cycle of a typical garment. This framework is further complicated by the process of modernization of the distribution network that has taken place in recent years, in terms of new formats and large-scale. Moreover, retailers are beginning to assume a central role in the configuration of supplier networks, being operators who act globally either in terms of market seeking or resource seeking. The increased role of distribution in the textile-apparel pipeline derives not only from its bargaining power, but above all from its market power, that is the capacity to orient the final consumer's preferences and to adapt to the fashion consumption trends. In contrast to the traditional independent clothing store, the large specialized retail firms and brand-dominated firms do not restrict their activity to actual retail distribution: rather, they go as far as to conceive the project of the collection and thus bring about a process of integration of the research and development functions for production of collections. That is to say, they take over some of the functions that are typical of the apparel industry. Overall, then, the distribution functions and management of the processes involved in the network of stores have acquired a more central role in the textile-apparel pipeline. This points to the potential rise of retailing competences as a factor of competitive advantage within the pipeline (Guercini and Runfola, 2004).

In addition to the central role of retailers in t/a, we must not forget the large number of manufacturing companies who develop a significant presence in retail, and invest in stores opening as a means of establishing the brand image both nationally and internationally (Aiello and Guercini, 2010). In this sense, the scope of the studies of the internationalization of retail widens, as they affect both retailers and manufacturers that develop activities in retail. It appears therefore a need for integration (Thompson 1967) both from the side of the actors of the retail, which perceive the need for control over the actors of manufacturing context, and the opposite case in which manufacturing firms experience a need for control over retail functions (Burresi and Guercini, 2009). This need for coordination and control result, not surprisingly, in factors that lead to the vertical integration in the textile-apparel-distribution chain. Vertical integration may be beneficial to develop rapid responses to changes in market demand. So, if on one hand the vertical integration is probably a stiffening element for actors that operate on volatile markets, it is also true that the same vertical integration can promote product differentiation as a source of competitive advantage difficult to imitate (Harrigan 1983). Moreover, vertical integration may spread the presence of a higher market information at different stages of the "pipeline" that are not directly in contact with the final demand. The forms taken of the integration process may not always be that of full vertical integration (Grossman and Hart 1986). In some case there is a form of "partial" integration, where for example the manufacturing actor gradually assumes some features that may be typical of the retailer, or, conversely, where the retailer integrates functions of the industrial company, assuming the characters typical of the "industrial retailer" (Guercini et al. 2003).

Guercini (2004b) represents different kinds of integration processes between manufacturing and retailing (Figure 4), in which one may find situations that involve integration from upstream to downstream and/or forms of external rather than internal growth.

Fig. 4: Integration processes between manufacturing and retailing

Strategy	Focal firm Retailer	 Manufacturer
Organic growth	A – organic growth from retailing to manufacturing • integration of apparel design • integration of apparel pre-assembly and assembly • integration of textiles sourcing	B – organic growth from manufacturing to retailing • opening of owned point of sales • development of logistical function and distribution centres
External growth	C – external growth from retailing to manufacturing • alliance in R&D and manufacturing of textiles and apparel • acquisition of manufacturers	D – external growth from manufacturing to retailing • acquisition of point of sales • alliance with retailers • franchising or affiliation

Source: Guercini (2004b)

Retailer may not to be limited to integrating the R&D activities of the apparel collection (design) and the outsourcing of textile materials, but also to develop manufacturing capacities of its own. The transition from a traditional apparel distributor to the industrial retailer comes about through a strategic process of vertical integration of the typical functions of clothing manufacturers. This may occur through (internal) organic growth or external growth (by acquisitions or agreements). The author defines the panel A of the matrix as "organic growth from retail to industry", in which there is a transition from downstream to upstream, achieved by internal growth, with retailer moving towards the ability to do research and development and to create apparel collections. The panel C of the matrix describes a situation in which the distribution firm may proceed to integration with industrial activities (research on collections, sourcing of semi-finished products, garment manufacturing services) through a number of different external growth processes, such as acquisitions and agreements. The right side of the matrix considers the integration in the distribution level of the textiles and clothing pipeline. This vertical integration can originate from integration downstream of the apparel industry and/or of the semi-finished textile products (panel B) in terms of organic growth of apparel retail, essentially through the establishment of a set of directly owned, or at least directly managed, stores. Finally, panel D refers to the apparel manufacturing and semi-finished textile product industry's vertical integration via external rather than internal growth, that may involve the opening of stores managed in franchising but also the development of new distribution formulas in agreement with distribution operators, either single-brand or multibrand, and the acquisition of sale outlets or even of entire chains.It therefore seems central the management of production networks and sales networks at the international level. Hollander (1970), discussing the process of internationalization of the distribution in clothing, highlighted the industrial nature of international distributors, saying that many companies are retailers who have developed a productive integration in industrial activities.

Following this line of reasoning, it can be difficult to make a clear-cut separation between the two categories - manufacturing or retail firms – but it is possible to determinate nevertheless generally which is the predominant of the two activities. With reference to this aspect, Gadde and Snehota (2001) discuss the possibility of rethinking the role and concept of middleman as distributor, emphasizing the loss of meaning of a generalized use of the term “distributor”:

> “The main analytical implication stemming from our analysis is that the generic notion of a middleman looses much of its meaning. Considering the varying roles of the middlemen’s practices the generic middleman concept becomes weak and analytically imprecise. Taking an extreme interpretation any business can be seen as a middleman business, since most companies are in-between other companies.” (Gadde and Snehota, 2001, p.7)

It is therefore in this sense that the literature proposes the conceptual category of industrial retailer, that is “*the figures of the retailer who integrates industrial capabilities (sourcing of semi-finished textiles, apparel design, product branding)*” (Guercini, 2004b, p. 12). In other words, the management of production and distribution can arise as coexisting issues in the same company, in particular in the textile-clothing pipeline, where the actor in a dominant position is represented more frequently by an organization that integrates the control of sale outlets with traditionally typical of manufacturing firms.

2.1.4 Categories of international fashion retailer and retail formats

Despite the wide variety of companies on the market, and clarified the fact that it can be difficult to make a clear-cut separation between retailers and manufacturers even if one activity may be predominant with respect to the other, Moore and Fernie (2004) identify four types of international retailers in the t/a sector. The four categories described by the authors are (Moore and Fernie, 2008, p.28):

- *The product specialist fashion retailers*: companies that focus upon a narrow and specific product range. These have a clearly defined target customer group either based on demography (such as childrenswear), gender or a specific interest. With some obvious exceptions, these retailers usually operate relatively small-scale stores either within busy customer traffic sites or major mass-markets shopping areas. The competitive differential of this specialist group is inextricably linked to the depth of their merchandise range within specific product categories.
- *The fashion design retailers*: Fernie et al. (1997) provided a definition of international fashion design retailers in terms of their having bi-annual fashion show in an international fashion capital (i.e. Paris, Milan, London, New York) and have been established in the fashion design business for at least two years. These firms retail merchandise through outlets bearing the designer's name, or an associated name, within two or more countries and market their own label merchandise. In many cases, the merchandise ranges offered by these companies extends beyond clothing to include other lifestyle product areas, such as furniture and household accessories.
- *The general merchandise retailer:* they are retailers that offer a merchandise mix that includes clothing alongside non-fashion goods, such as department stores. Their stores are often located within key expatriate locations. The competitive differential of this general group is linked to the breadth, and in some occasions, the depth of their merchandise ranges.
- *The general fashion retailers:* unlike the product specialist fashion retailers which tend to concentrate on only a limited range of fashion product categories, the general fashion retailers offer a more extensive range of fashion merchandise and accessories, either to a broad or highly

defined target segment. These groups are usually located in city-centre locations so as to allow for maximum customer access. The competitive differential of this group is linked, in part, to the strength of their brand identity, as well as the breadth and depth of their fashion offer.

Another useful classification is that of retail formats. The retail formats are many, and strongly characterized by the variety of elements that distinguish them. For the purposes of this research, we consider two retail formats, in most cases attributable to the manufacturing firm: the flagship store and the self-standing store[7]. The flagship store is an increasingly popular venue used by marketers to build relationships with consumers (Kozinets et al., 2002). It is a store of large dimension, localized in prestigious areas well known internationally, and is marked by a strong brand image that refers to the company. This type of stores are an important investment in communication and unite the strength of the brand with the shopping experience. The flagship store is usually owned by the company and directly managed. Kozinets et al. (2002) identify three characteristics of flagship stores as follows: (1) they carry only a single brand of product; (2) they are company owned; and (3) they operate with the intention of building brand image rather than solely to generate profit for the company. The flagship store has been extensively studied for its commercial role, for being a communication tool of brand identity and privileged place of interaction with the customer, as well as for its being vital to the development of the fashion brand's reputation (Moore et al., 2000). The self-standing store is a small store (usually between 50 and 200 sq. m.) located on the street or in shopping centres, whose image is aligned with the brand policies; may be owned or in franchising.

With reference to market entry methods, while franchising and wholesaling warrant particular attention, the importance of flagship stores as an international market entry method has been somewhat neglected despite its centrality to the internationalization strategy of these firms (Moore et al., 2000). Scholars in international business have stressed the role and function of flagship stores as a

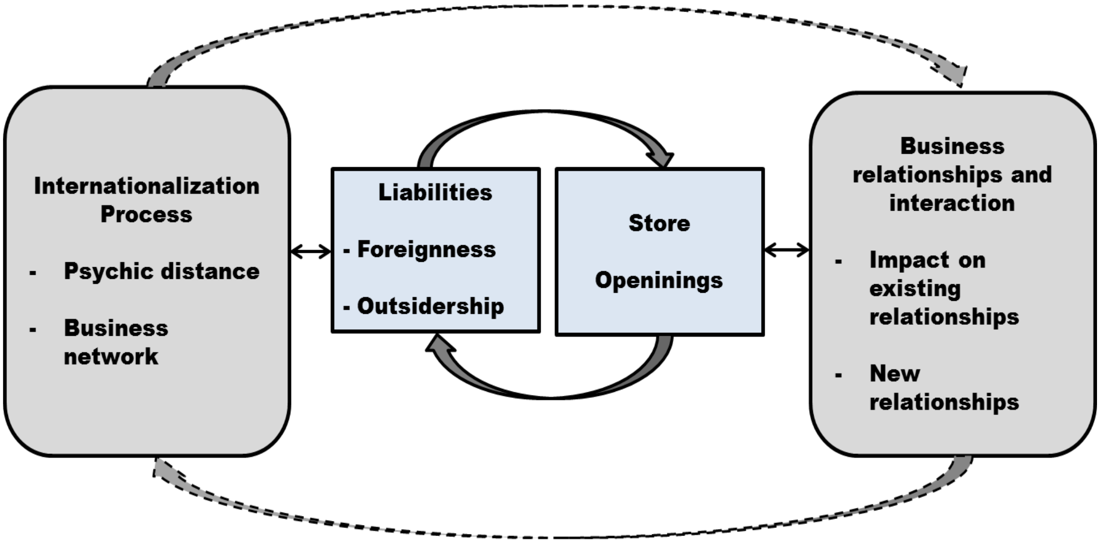
[7] Other retail formats very common in the textile and clothing sector are, for example, multibrand stores, boutiques, department stores, factory outlets and outlet centres. For a taxonomy of retail formats, see Runfola (2012, p.87).

market entry mechanism with reference to luxury fashion retailers (Moore and Doherty, 2007; Moore et al., 2010). Moreover, given the nature of manufacturing it is of no great surprise that entering international markets via a flagship operation receives no mention in this developed literature. Fernie et al. (1998) comment on the loss-making nature of many of these stores, making them a particularly fascinating method of entry. They claim that "*flagship stores are maintained to act as publicity vehicles for the ranges and are not required to show a typical return on investment*" (p. 373). Moore et al.'s (2000) study on the internationalization process of luxury retailers places the opening of flagship stores at the centre of the process. While these firms may enter markets via wholesaling initially, their presence in a market is normally marked by the opening of flagship stores in central locations such as those noted above. Thus, while Fernie et al. (1998) and Moore et al. (2000) have introduced the concept of the flagship store in the context of broader studies on the internationalization of luxury brand retailers, much remains to be learned about the role and importance of flagship stores as a market entry method not only for luxury firms but also for fashion retailers in general and manufacturing firms that undertake a downstream integration. The same can be said for other retail formats, especially the self-standing stores which partly have similar characteristics to the flagship stores, which are under-investigated in the literature but are a central component of the business practice in the fashion industry.

2.2 Research framework and research questions

Combining the theoretical platform of the research and the empirical context consisting of the phenomenon of stores opening abroad, we propose a research framework that is structured as follows:

Fig. 5: Research framework: liabilities in internationalization, business relationships and stores opening



Source: Author's elaboration

The framework relates liabilities in internationalization and stores opening, first in the context of the process of internationalization of firms described in terms of psychic distance and business network, as in the revisited version of the Uppsala model of 2009; on the other hand, in the context of business relationships and interaction, according to the IMP perspective. The model proposes the study of stores opening in relation to liabilities in internationalization, in accordance with a circular view: the opening of retail outlets can be seen as fertile ground for the emergence of liabilities, in particular foreignness and outsidership, which can make the operation difficult if not impossible to implement; the opening of retail outlets, where successfully implemented, can both be a way to overcome these liabilities, helping to continue the process of internationalization. The model also examines business relationships, noting that these have a key role in the openings of stores, both in terms of new relationships that may arise and be the determinant of the decision to open a store, and in terms of impact on the existing upstream and downstream relationships of the company, such as relationships with suppliers and other business partners. The idea of studying the opening of stores –

as a complex phenomenon in its entirety that impacts on the development of the company and involves the decision makers, regardless of the retail format chosen and the type of ownership and management – in a perspective of business relationships and interaction with new and existing actors is new and poorly investigated in the literature, with few exceptions that anyhow adopt different perspectives than ours[8]. The model therefore offers a new interpretation of the phenomenon of stores opening, in a perspective of business relationships and interactions among actors in domestic and foreign markets. Business relationships themselves can assist the process of international expansion through stores opening, with a possible impact on the liabilities inherent in the process. The model in this sense is circular in nature.

The research framework allows us to formulate research questions that relate the elements that constitute the model. The first research question concerns the relationship between liabilities and the internationalization process. The liability of foreignness is related to the concept of psychic distance, while the liability of outsidership has to do with the uncertainty and difficulties associated with being an outsider in relation to a certain network. Through the first research question, the aim is to contribute to clarify the relation between the two approaches, that might be difficult to disentangle and might generate a joint impact on the process of internationalization, that becomes specific to cultural and relational issues:

RQ1. Which is the relation between LOF and LOO and how do they impact on internationalization process?

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[8] As stated above, Doherty and Alexander (2004) focus on the franchising entry mode by exploring the relationship building aspects of international retail franchising in the context of relationship marketing, using the relationship marketing paradigm and the marriage analogy. Research by Doherty and Alexander (2004) has examined the range and diversity of formal and informal mechanisms that internationalizing fashion retailers use in order to support and develop franchise activity. Predominant among these are those initiatives which seek to improve the resource management and business development skills of local partners. Moore and Doherty (2007) place their attention on the flagship store as retail format that serve as a conduit and support for business relationship. Again, the stress is on franchising operations and the building of collaborative relationships between the retailer and their partner/stockists within a foreign market.

The second research question becomes more specific to the empirical context trying to investigate what are the liabilities arising in respect of stores opening and if the stores opening may be a way to overcome such liabilities:

RQ2. What are the main liabilities faced by firms that open stores abroad and which is the role of stores opening on the overcoming of liabilities?

Finally, a third research question concerns the role of business relationships:

RQ3. How do stores opening impact on business relationships and vice versa?

The research questions are combined with the aim of presenting some reflections and empirical evidence on the phenomenon of stores opening, in terms of emerging trends related to: the country of origin and country of destination of the opening; types of firms involved; localization in industrial districts of firms active in the openings of stores (only for Italian companies).

2.3 Methodological review

Methodologically, international retail research has become increasingly engaged with qualitative methods in recent years. This is in contrast to earlier work that was more reliant on observation (Treadgold, 1988), questionnaires (Alexander, 1990a, b; Williams, 1992a, b; Myers, 1995; Myers and Alexander, 1997), databases (Burt, 1993; Davies and Fergusson, 1995) and case descriptions of individual firms based on secondary data (Laulajainen, 1992; Moore, 1998). In the late 1990s, and particularly in the 2000s, there has been a significant move to the use of more in-depth qualitative methods such as ethnography (Quinn, 1998, 1999), in-depth interviews (Moore, 1997; Palmer and Quinn, 2005; Evans et al., 2008a, b), the increasing use of the single qualitative case study (Palmer, 2005; Palmer and Quinn, 2007; Bianchi, 2009; Wigley and Chiang, 2009) and multiple case studies (Bianchi and Ostale, 2006; Doherty and Alexander, 2004, 2006; Hutchinson et al., 2006, 2007; Doherty, 2009). This move to more in-depth methods of data collection and analysis and this is characteristic of a mature stage of development of this topic. The use of questionnaires and databases complement the developing qualitative methods agenda (Alexander et al., 2005). Besides theoretical contributions, insights based on primary qualitative data help research in this area to get closer to the organizations themselves and provide a greater understanding of how and why internationalization actually happens (Guercini, 2014).

The topic of the paper is addressed by using a case study method in order to provide some indications regarding the previously outlined research questions. Case study research is, probably, the most popular research method used by industrial marketing researchers in which the units of analysis are organizations and relationships that have a complex structure. Industrial marketing researchers argue that case research in this area is different because of the nature of the phenomena studied (Guercini, 2004a; Piekkari et al, 2010). The main units of analysis are organisations and relationships, which are difficult to access, and complex in structure in comparison with, for example, consumer markets. As a result a case study of a single, or a small number, of such entities can provide a great deal of, largely qualitative (Miles, 1994), data offering insights into the nature of the phenomena. Case analysis does not exclusively or necessarily imply the use of qualitative data nor it implies that qualitative research and case analysis can be considered synonymous, since either qualitative or quantitative evidence may be equally used within the framework of analysis (Miles and Huberman, 1994). As regards to the method of data collection, ethnographies do not necessarily lead to the formation of cases (Gill and Johnson, 1991; Yin, 1993), since corporate cases can be built up without resorting to these techniques of data gathering, turning instead to data collected from archives, databases, verbal reports built up by third parties, or combinations of these elements.

Yin (1989, p. 23) defines a case study as "*an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used*". He also emphasizes the existence of both single- and multiple-case studies. Eisenhardt (1989) highlights the potential of case studies to capture the dynamics of the studied phenomenon: "*the case study is a research strategy which focuses on understanding the dynamics present within single settings*" (Eisenhardt, 1989, p. 534). Instead of statistical representativeness, case studies offer depth and comprehensiveness for understanding the specific phenomenon (Easton, 1995).

Normann (1975) define the case study method as an approach that consists in examining a complete conceptual structure and comparing it, in its multiple aspects, with a structured set of data that refer to a single element which takes on the form of a complex system or event, thus underlining that it is suited to the study of complex systems of social events which are unique and must be considered as wholes. Case studies give a possibility to be close to the studied objects, enabling inductive and rich description. Case research is particularly welcome in new situations where only little is known about the phenomenon and in situations where current theories seem inadequate (Easton, 1995; Eisenhardt, 1989; Yin, 1989). It is also a strong method in the study of change processes as it allows the study of contextual factors and process elements in the same real-life situation. The case study method may prove to be particularly suited for investigation of phenomena that do not easily lend themselves to an analysis divorced from contextual conditions. It is also likely to be suited to situations where the observations can be carried out with regard to phenomena whose specificity, complexity and cohesion are such as to make an extensive analysis of individual aspects over a large range of subjects less significant than examination of the configuration of a single organism considered as a whole. Case studies can be used to accomplish various aims. The aim that can be pursued is not that of achieving generalizations, but to achieve in-depth understanding, from the point of view of the actors and the nature of the activities studied. Yin (1989) separates exploratory, descriptive and explanatory cases. Eisenhardt (1989) acknowledges description but stresses the role of cases in generating and, also, testing a theory. Stake (1994) defends the value of intrinsic cases, where a rich description of a single case, in all its particularity and ordinariness, is seen valuable as such. In the management and marketing literature, theory generation from case study evidence has been the most discussed type of case research. It should not be forgotten, however, that case studies might also be conducted for other reasons, for instance, to evaluate a case, e.g., a program or a network, or to help companies to change (Stake, 1994).

The concept of case analysis is distinct from that of case study: case analysis pertains to the research process while case study concerns the actual product achieved; case analysis does not necessarily lead to a case study (Guercini, 2004a). Research based on case analysis involves a range of possible tools and different fields of application. “Case research” is a label often attached to quite disparate forms of research method. According to Mitchell (1983) “*the term ‘case study’ may refer to several different epistemological entities*”. Guercini (2004a) argues that the notion of “case study methodology” is interpreted and utilized in various ways, thus assuming the connotation of a signifier with multiple meanings, and the ‘concept’ of case analysis depends on a wide range of factors. These factors include the intended utilization of the examination of a case[9], the definition of the element on which the analysis focuses (individual companies, systems of organizations, etc.), the aims of the research (investigative, descriptive, interpretive), the type of evidence gathered and used in the case analysis (qualitative, quantitative, or a suitable mix of the two) and the manner in which the findings resulting from the investigation are used.

This methodology is particularly suitable when dealing with research questions that try to identify some behavioral aspects of companies’ actions (Eisenhardt, 1989; Yin, 1994), within a research project based on exploratory objectives. Research questions are definable in terms of the questions: who, what, where, how and why (Yin, 1994). Case studies are more suited to how and why questions which can be explanatory in nature.

The case study approach has not always been recognized as a proper scientific method. The main arguments against it have been that case studies provide little basis for scientific generalization (Yin, 1994). For example, Weick (1969, p. 18) expresses the opinion that case studies are too situation specific and, therefore, not appropriate for generalization. In the second edition of the same book, however, he concludes that case studies “*are better tools than first imagined*” (Weick, 1979, p. 37). Some scholars maintain that the study of a case cannot supply reliable information on phenomena that have a more general character, and is instead more

[9] The examination of a case may be utilize in teaching, research, in the professions (Guercini, 2004a). Research based on case analysis involves a range of possible tools and different fields of application. Case analysis can also be used in teaching for specific methodological purposes and in professional practice as a means of organising available aspects of knowledge (data, information, knowledge).

useful during the preliminary stages of an investigation (Marshall and Rossman, 1989). Other authors point out that case studies are suitable to develop extensive information about a single entity and to suggest hypotheses, but they cannot be used to conduct formal tests on hypotheses, except perhaps to provide counter-examples (Bruns and Kaplan, 1987). Learning from a particular case (conditioned by the environmental context) should be considered a strength rather than a weakness. The fact that a certain method is considered appropriate is not enough to qualify it as a scientific approach. Yin (1994) is critical of some case study research, stating that "*too many times the case study investigator has been sloppy and has allowed equivocal evidence on biased views to influence the direction of the findings and conclusions*". Yin concludes that case study research is hard to conduct, in spite of the fact that it has been considered a 'soft' approach. He even argues that the softer the research strategy, the harder it is to conduct. Easton (1995, p. 379) identifies three types of weaknesses in case study research: some case studies are simply rich descriptions of events from which the readers are expected to come to their own conclusions; others are really examples of data that appear to provide, at best, partial support of particular theories or frameworks and are used in a quasi-deductive theory testing way; a third kind employs multiple case studies in a way that suggests that they are relying on some notion of statistical generalization. Weick (1979, p. 38) delivers similar criticism regarding the first type of weakness, suggesting to invest in theory to keep some control over the set of case descriptions. Investing in theory might improve the explanatory power of case studies. In this sense, deductive logic dominates international business research, beginning with theory, thus moving from the general to the specific. The inductive approach is also widely used, starting with individual empirical cases from which general theoretical patterns are proposed. As they are based on different research philosophies, these approaches are often seen as mutually exclusive. In general, the deductive approach guides quantitative researchers and the inductive approach guides qualitative researchers (Neuman, 2000). There is also a third approach that follows an abductive logic, proposed sometimes as a kind of combination of induction and deduction, even if it is more than that (Dubois and Gadde, 2002). Rather, it is a process of scientific inquiry based on pragmatism, where the empirical base is developed interchangeably with a refinement of existing theory. It also includes interpretation of both empirical and theoretical frameworks in the light of each other in order to discover an underlying pattern that can give a deeper understanding of the phenomenon studied. The role of theory as a verification or validity instrument varies throughout the process of abduction: (1) theory testing and justification typical of deduction is suitable at later phases of a study, when the theoretical framework is well known; (2) theory generation to discover patterns, typical of induction, is suitable at the beginning of research, when the theoretical framework is preliminary; and (3) theory development or refining theory extends over the whole abductive research process, and oscillates between the deductive and inductive approaches. A more practically oriented approach to case study research inspired by abductive logic is proposed by Dubois and Gadde (2002), who explain systematic combining as "*a continuous movement between an empirical world and a model world*" (p. 554).

With reference to the usefulness of results of case analysis, this depends largely on the quality of the communication processes from which the elaboration of the case originates. The case study approach springs from at least two communication processes (Guercini, 2004a): (1) between the researcher and the organization under investigation, or more precisely between the investigator and the subjects that represent the interface within the unit, organization or social system under study; and (2) between the researcher and the reader or user of the research. These communication processes may unfold along channels of communication of different extension: short, when the channel is composed of the interaction between the organization studied and the researcher and between the researcher and the user of the case itself; and medium or long, when there are additional communication processes upstream (data gathering not conducted at first hand, i.e. collected from subjects which examined the organization earlier) or downstream (concerning utilization of the case). Guercini (2004a) maintains that each interaction taking place within the channel affects the data resulting from the study, and inevitably leads to a certain degree of loss of information; and distortion of information.

In light of these specifications, the case method appears to be suitable for the study of business networks. It allows the study of a contemporary phenomenon, which is difficult to separate from its context, but necessary to study within it to understand the dynamics involved in the setting. In the context of network research, the case strategy can be defined as "*an intensive study of one or a small number of business networks, where multiple sources of evidence are used to develop a holistic description of the network and where the network refers to a set of companies (and potentially other organizations) connected to each other for the purpose of doing business*" (Halinen and Tornross, 2005, p.1286). Case research poses various challenges for a network researcher. Easton (1995) has provided an overview of the most evident problems network researchers face when conducting case studies[10]. Very much in line with the thoughts of Easton, 1995, Halinen and Tornross (2005) distinguish four major challenges of case research for a network researcher:

1. Problem of network boundaries.
2. Problem of complexity.
3. Problem of time.
4. Problem of case comparisons.

The problem of network boundaries relates to the difficulty of separating the content and context of a business network[11]. What forms the case network and what belongs to its context are fundamental questions to be answered in any case study project. The network setting extends without limits through connected relationships, making any network boundary arbitrary. It is clear that one can never study the entire industrial network. A researcher faces here a dilemma that has important implications not only for the feasibility of network studies per se but also to the possibilities to include several cases to one single study and to make case comparisons. On the one hand, "*the smaller the unit of analysis, the more one loses of the connectedness that is the very essence of the network*" (Easton, 1995, p. 417). On the other hand, "*studying a large single network*

[10] Easton (1995) brings up the connectedness of networks and the problems of representativeness and choice of sampling unit that it creates. He also draws attention to the nature of networks as an interdisciplinary and complex field of study and emphasizes the necessity of taking the temporal dimension into consideration.

[11] See the definition of business network given in Chapter 1, following an IMP perspective.

retains the connectedness…but raises very real issues of representativeness and restricts access to the majority of methodologies that, in practice, demand replication'' (Easton, 1995, p. 417). Halinen and Tornross (2005) suggest that a possible guideline to be used in the definition of network boundaries is the content of the research problem since network boundaries are directly affected by the focus of research and the way it is delimited. Network literature offers a number of potential concepts that can be used as frameworks of thought in solving the boundary problem. One potential pair of concepts is that of ''microposition'' versus ''macroposition'' put forth by Johanson and Mattsson (1988). The microposition is characterized by the role that the firm has for another firm and by its importance for the other firm. This microview is mainly dyadic. The macroposition, on the other hand, is more interesting from the network perspective. It is characterized by (Johanson and Mattsson, 1988, p. 472):

1. the identity of the other firms with which the firm has direct relationships and indirect relationships in the network;
2. the role of the firm in the network;
3. the importance of the firm in the network; and
4. the strength of relationships with the other firms.

Similar with other concepts offered, the perspective on defining the network is clearly that of one focal firm. The concepts of "network horizon" and of "network context" emphasize the perceptions of an actor in the definition of network boundaries (Anderson et al., 1994). Network horizon denotes how extended an actor's view of the network is, offering a potential way to delimit the outer boundaries of a network; the actor's horizon is likely to change over time, as a consequence of doing business. The network context, instead, is defined as that part of the network horizon that the actor considers relevant (Anderson et al., 1994). As defined through the ARA model of business networks[12], the perceived context includes the actors and their relationships that the actor regards as relevant, the activities performed in the network and the resources used and created within it. Networks can thus be limited in relation to those actors, who, at a certain point in time, actively relate to each other through business, social and/or

[12] See par.8 in Chapter 1.

technological exchange. The definition of network horizon or context as a perception of an actor means that the network boundaries are defined through the informants used in the empirical study. In addition to the suggested concepts, a more structural approach for delimiting the network under study could be useful. Network studies have been carried out by using focal organizations, dyads or small nets of organizations in defining the unit of analysis. Halinen and Tornroos (1998) suggest a more structural approach for delimiting the network under study, using focal organizations, dyads or small nets of organizations as unit of analysis. The authors describe these three perspectives on networks as an actor–network, dyad–network and a micronet–macronet perspective. In addition to these, a fourth perspective could be separated: an intranet perspective, that refers to the internal networks of big national or global corporations composed of several business units. Boundary setting is necessary for analytical purposes, for defining the case, and what belongs to it and to its context.

The problem of complexity is a many-dimensional issue: networks are complex in terms of their structure consisting of several actors and several different links, direct and indirect, between them. Network embeddedness connotes an actor's position in a network, its relations and its dependence on spatial, social, political, technological and market structures, for instance (Fletcher and Barrett, 2001; Halinen and Tornroos, 1998). The complexity formed by structure and embeddedness creates important problems for a researcher. Similar with the issue of connectedness and the problem of defining network boundaries, the issue of embeddedness raises the problem of whether holistic network studies are feasible at all. The only way to handle complexity in research is to choose an appropriate theoretical perspective for the study, even if the risk is to lose something of a network as a real-life system. Mastering the complexity means that one should set limitations concerning the objective and scope of research but at the same time it does not mean that it is forgotten or overrun by excessive simplifications in theoretical and methodological choices. The concept of network embeddedness (Andersson and Forsgren, 2000; Fletcher and Barrett, 2001; Halinen and Tornroos, 1998) offers potential ways to limit a network in a relevant manner or, at least, to become conceptually more aware of the nature of network complexity.

Through business actors, their bonds, activity links and resource ties, networks are connected, for instance, to various geographical levels from global to local, to different levels in the value chain (supplier, manufacturer, distributor and customer) and in the business setting (industry, company/corporation, business unit, department and individual). The vertical dimension of embeddedness refers to connections and dependencies between different levels, whereas horizontal denotes those within a specific network level. On which dimensions and levels one should position the study depends naturally on the study objective. In this sense, A thorough description of the case is often necessary to reveal the complexities involved in the functioning of the network, presenting and dispaying data in the form of narratives and illustrative figures and schemes.

The third challenge, the problem of time, is central in network research (Guercini et al., 2014), being the network dynamic in its nature and susceptible to change (Easton 1995, p.419). This has important and somewhat challenging implications for methodology. Accepting the idea of dynamic and constantly changing networks puts vast demands on network research: one of the key questions is which longitudinal (or process) method to use in data collection. Case research on business networks can be characterized as process research that investigates a sequence of events or activities that describes how things change over time (Van de Ven. 1992) or a sequence of individual and collective events, actions, and activities unfolding over time in context (Pettigrew, 1997). In a processual case study analysis, the task of the researcher is to search for patterns in the process, to find the underlying mechanisms that shape the patterns in the observed processes and to use both inductive and deductive reasoning in the analysis (Pettigrew, 1997). Change and dynamics are concepts inherently connected with time and temporality[13]. In the context of network studies, the concept of relational time has been introduced to capture all the dimensions of time and to stress the idea that

[13] A perspective of time is that of Hassard (1991) who notes that time can be viewed as natural time and human time. Human time (or social time) can be further separated into cultural, organizational and individual time. Cultural time is bounded to the time consciousness inherent in each culture, organizational time to the sense of time people acquire through membership in social organizations, and individual time to the subjective experience of time. Another perspective on time is the triadic temporality comprised of history, present and future, where past extends its influence into the present, such as the expected future. For further discussion see Ancona et al. (2001) and Guercini et al. (2014).

time should be regarded in relation to the studied context (Halinen and Tornroos, 1995). Network processes are embedded in their context and can only be studied within it. In line with this thinking, Halinen and Tornross (2005) suggest a framework for network analysis that includes both the levels in the context of a network (vertical levels of network embeddedness) and the temporal dimension, represented in terms of past, present and future. Reconstructing historical events is a possible option for grasping change processes in network development, but it represents a kind of a post-rationalization of events by managers in interview situations, which can also be questioned. Historical and retrospective studies focus on the study of the past, follow-up studies – or prospective longitudinal studies (Easton, 1995) – focus on present, and future studies are oriented towards the time coming. Another option is to choose particular events under study, through which one can gather an idea of what has happened and why. Easton (1995) calls these event-sampling studies. The critical incident technique is perhaps the best known of the event-based methods and used also in relationship and network studies (Edvardsson and Roos, 2001).

The fourth problem, that of case comparisons, is particularly relevant to case studies that aim to generate theory. In theory-generating research, the potential to make cross-case comparisons is commonly viewed as important, if not even necessary (Eisenhardt, 1989; Perry, 1998; Yin, 1989). There is thus much potential for both greater explanatory power and greater generalizability than a single-case study can deliver. This may be a very true, but still very problematic, issue in network research because, due to context specificity and historical background, each network case is somewhat unique and thereby difficult to compare with others; moreover, a multiple case study on networks is also extremely laborious for an individual researcher. A single-case study is an appropriate design for network research in many situations: when the objective is represented by the demanding task of providing holistic descriptions of contemporary business networks to learn about their nature, management and, a single-case study is often the only option. Nevertheless, multiple-case designs that allow case comparisons are preferred in theory-generating case studies. Although it is acknowledged that single cases, when viewed as experiments, can also be valuable in testing and developing theory (Yin, 1989, p. 47), the value of case comparisons is often emphasized (Perry, 1998; Pettigrew, 1997). The idea of case comparisons is based on replication logic, not on sampling and statistical representativeness. Each case must be selected so that it either (a) predicts similar results for predictable reasons (i.e., literal replication) or (b) produces contrary results for predictable reasons (i.e., theoretical replication; Yin, 1989, p.53). Making comparisons by using such an analytical basis poses some problems for a network researcher. Some tools that can be used to make comparisons feasible consist of a flexible attitude towards comparisons: although the compared cases could not be selected through any theoretically firm and empirically informed screening process, it is probable that their comparison would still provide some new insights into research. A fairly tight theoretical framework is needed a priori to make case comparisons possible because it guides the conduct of the study, helps in the selection of cases and also limits the number of theoretical dimensions to be compared. In addition, using the same type of informants across cases might be helpful in finding comparable data concerning business networks and data that emanate from similar types of sources and positions in the studied firms. To end the discussion on comparisons, as noted by Stake (1994), comparison is a powerful conceptual mechanism, but it fixes attention upon the few attributes being compared, obscuring simultaneously other knowledge of the case. In this respect, Stake (1994, p.238), continues "…*damage occurs when the commitment to generalize or create theory runs so strong that the researcher's attention is drawn away from features important for understanding the case itself*".

2.4 Research strategy

A case study is usually seen as a specific research strategy (Eisenhardt, 1989; Yin, 1989) besides, for instance, experimental and survey strategies. Research strategy concerns how to conduct research through either applying a quantitative method such as a survey or a qualitative method such as case study (Yin, 1994). The research strategy should be determined by the context of the study (Piekkari and Welch, 2004), and should also match the research question posed.

The research strategy adopted in the thesis includes two phases:

1. Building a database of stores opening. The aim of the first phase is to build a database of stores opening in order to represent quantitatively the phenomenon and produce some descriptive statistics. In particular, we present some reflections and empirical evidence on the phenomenon of stores opening, in terms of emerging trends related to: the country of origin and country of destination of the opening; types of firms involved; localization in industrial districts of firms active in the openings of stores (only for Italian companies). The idea of building a database containing information relating to the opening of stores from 2011 to 2013 by firms in the fashion and luxury sector stems from the lack of existing databases that bring evidence on the relevance and extent of the phenomenon. The database is built through a secondary research which provides the examination of news from selected sources related to stores opening in foreign countries by fashion/luxury brands in the period 2011-2013.
2. Case analysis. The aim of the second phase, the case analysis, is to provide a deeper understanding of the three main topics of the thesis, liabilities in internationalization, business relationships and stores opening, in order to answer to the research questions and contribute to the theoretical development of the constructs and phenomena under study. The result of the case analysis consists of luxury/fashion firms that have opened stores in foreign countries. The research presents the results of semi-structured interviews with the entrepreneurs and management of the firms. In particular, three cases of Italian fashion/luxury firms have been developed: (1) Montezemolo (Gruppo Sartoriale International); (2) Stefano Ricci; (3) Luisa Spagnoli.

Methodological notes of each phase of research are specified in the next two chapters. More precisely, in chapter 3 the database of stores opening and the related emerging issues and trends are presented; chapter 4 is dedicated to the case analysis, in particular: methodological notes on the process of case analysis and the three cases under study.

CHAPTER 3. RETAIL STORES OPENINGS: EMPIRICAL EVIDENCES AND EMERGING ISSUES

3.1 Introduction

The aim of the chapter is to present some reflections on a phenomenon that seems to be unexplored in the international management literature: the international expansion of firms through the opening of retail stores in foreign countries. Indeed, despite the by-now many years of literature contributions aiming to shed light on various aspects of the internationalization of firms, little attention has been focused on the retail development of firms, especially with regard to the manufacturing sector. The opening of stores – directly managed, via franchising or licensing – seems to be a particularly widespread strategy today in textiles and apparel, and is favoured not only by firms whose origins lie in the apparel manufacturing but also by operators who entered the market via the route of the production of semi-finished textile products. The empirical research, in particular in the Italian fashion system, carried on by the author and other researchers in the field, has shown that the opening of stores has become part of the business practices becoming one of the main items of investment by companies: in this sense, there is a gap between the business practice and the literature on the topic, and this makes the phenomenon of stores opening significant and worthy of investigation. Moreover, the internationalization process through stores opening has been studied (Guercini and Runfola, 2014; Hutchinson et al. 2009) by the authors, resulting in findings that highlight the advisability of carrying on the research on this phenomenon, which seems to have attracted little attention in the international business literature.

With the exception of few reports by consulting companies, in the academic literature there are no reports or databases representing the scope and size of the phenomenon of stores opening in quantitative terms. In other words, there is a the lack of data/existing databases[14] that bring evidence on the relevance and extent of the phenomenon.

[14] A research in this direction, made with the aim of building a database of stores opening, was carried on by Aiello and Guercini (2010) with the aim of analysing the relationship between brand and retail outlets.

Our research project in this field consists of an exploratory study based on a secondary research that aims to produce a database containing openings of retail stores in the 2011-2013 period, thus providing empirical evidence on the size and scope of the phenomenon. In the research we investigate the characteristics of the operations on the stores, made by firms in the t/a sector as entry mode into foreign countries. Before going into the details of the database of stores opening in qualitative and quantitative terms, the main reflections on the topic can be summarized in the following statements:

- ✓ the growing importance of emerging countries not only with respect to the supply side (resource seeking perspective) but as increasingly profitable markets (market seeking perspective);
- ✓ the evolution followed by the brand that is no longer tied to single products but, rather, to a complex system where the store has a central position, with the consequent importance covered by retailing competences;
- ✓ the phenomena of integration that affect both industrial and retail firms, associated with investments on the universe of the brand;
- ✓ the importance assumed by the opening of stores as a development tool of the firm's presence in foreign markets, for all types of companies in the fashion industry, from large retailers to SMEs manufacturing firms.

3.2 Methodological notes

The study covers the processes of internationalization through stores opening in foreign countries by fashion and luxury firms (from Country A to Country B).

The research starts from the building of a database, created by collecting news concerning precisely the opening of retail outlets abroad in the period 2011-2013. Two publications in the fashion industry were analyzed: Journal du Textile and Pambianco Week. Overall, the sources analyzed were:

- Journal du Textile (France)
- Just Style (UK)
- Pambianco Magazine (Italy)
- Fashion Magazine (Italy)

- Textilwirtschaft (Germany)

Journal du Textile (JDT) and Pambianco Magazine (PBM) were selected for the richness and completeness of the information provided, the availability of the magazine itself, and the dissemination of magazines internationally. The first source, Journal du Textile, is a weekly French trade press journal for textile and clothing founded in 1963. The publication is dedicated to professionals and experts in the textile and clothing. Large format, on coloured paper, it provides information on fashion and the latest trends, technological innovations, trade shows and events, distribution trade and sales, companies, opening of new stores. With a circulation of 16.000 copies each week and 72,000 readers (Publisher's Statement, 2008), is one of the magazines in the fashion industry with the highest penetration. The second source, Pambianco Magazine, fortnightly and with a circulation of 85,000 copies each month, is an Italian magazine published by the consulting firm Pambianco, founded in 1977, that assists companies of fashion, luxury and design in the setting and implementation of their development projects. Pambianco is now a well-known brand in the world of fashion, luxury and design, partner of major Italian newspapers and magazines for data, market research and analysis on various sectors of the Made in Italy and it organizes annually, in November, a conference that brings together entrepreneurs, top managers and journalists in the field. It was decided to consider only specialist publications in the field and not to consider more general sources in order to limit the sources to a more homogeneous field. With regard to the first source, Journal du Textile, the analysis of the publications from January 2011 to December 2013 covered 126 numbers of the magazine. With regard to Pambianco Magazine, the analysis covered 53 numbers in digital format in the same period.

Proceeding in the analysis of the methodology, we must emphasize that the object of interest of our research project were the news about new openings in foreign countries; the renovation of existing stores or the change of location within the same city were not included in the database. We considered foreign countries as all those different from that of the brad origin: the country of origin of the product is not significant in this context, nor the country of origin of the holding. Moreover, for each news was detected: the date of realization, the brand associated with the operation, the country of brand origin, the country of destination of the operation, the city, the type of format and ownership, if available, the number of stores and any other features related to the size of the store or other characteristics (Figure 6).

Fig. 6: Building the database

Source	Code	Date of the news	Brand	Year of the Opening	Country of brand origin	Country of destination	City	Number of stores	Ownership	Format	Notes

Source: Author's elaboration

The news have been selected according to criteria defined a priori as follows:

- Internationalization from country A to country B
- Openings of mono-brand stores
- Firms/brands in the t/a: si esclude la pelletteria e gli accessory.
- Categories of fashion retailers: product specialist fashion retailers, with the exception of sportswear (es. Nike, Adidas) and lingerie; fashion designer retailers; general fashion retailers.
- Comprehensive news containing information on: country of firm/brand origin, country/city of destination, number of stores, retail format.

The database was then subjected to a series of cross-referencing queries, with the aim of eliminating any erroneous insertions (e.g., news of retail outlet closings) or duplications (i.e., news of the same event reported a number of different times or in both sources). Despite the care taken during data collection and despite this further filter, the possibility that a small subset of the news collected may refer to the same event or represent at least partially overlapping data cannot be excluded. It was moreover found that some of the events collected regarded operations that were not concluded between 2011 and 2013, and hence each of these operations was excluded or included in the database based on a criterion of estimated prevalence. The filtering operations described above yielded a total of 908 reported news events of stores opening in foreign countries, from which it was deduced that 992 new stores were opened in 66 countries by 275 brands from 19

countries. In order not to distort the overall results by including rather extreme operations, all events regarding plans to open a very large number of stores (e.g., news containing over 60 openings in a single operation, for which it was not possible to extrapolate precise information concerning the country of destination of the opening, the city, the format of the store) were excluded from the count.
The empirical work was carried by the researcher in the period September 2013-July 2014.

3.3 Analysis of retail stores opening from 2011 to 2013

On the basis of the criteria above mentioned, 908 news were detected related to the opening of 992 stores in the three years, which are distributed in the sources as in the table.

Table 2. News and openings in JDT and PMB in 2011-2013

		2011	2012	2013	Tot.
Number of news	**Pambianco Mag.**	192	131	88	411
	Journal du Textile	163	234	100	497
	Tot.	355	365	188	**908**
Number of openings	**Pambianco Mag.**	194	139	122	455
	Journal du Textile	187	241	109	537
	Tot.	381	380	231	**992**

Source: Author's elaboration

The openings covered 19 country of brand origin according to the following distribution:

Table 3. Country of brand origin and number of openings

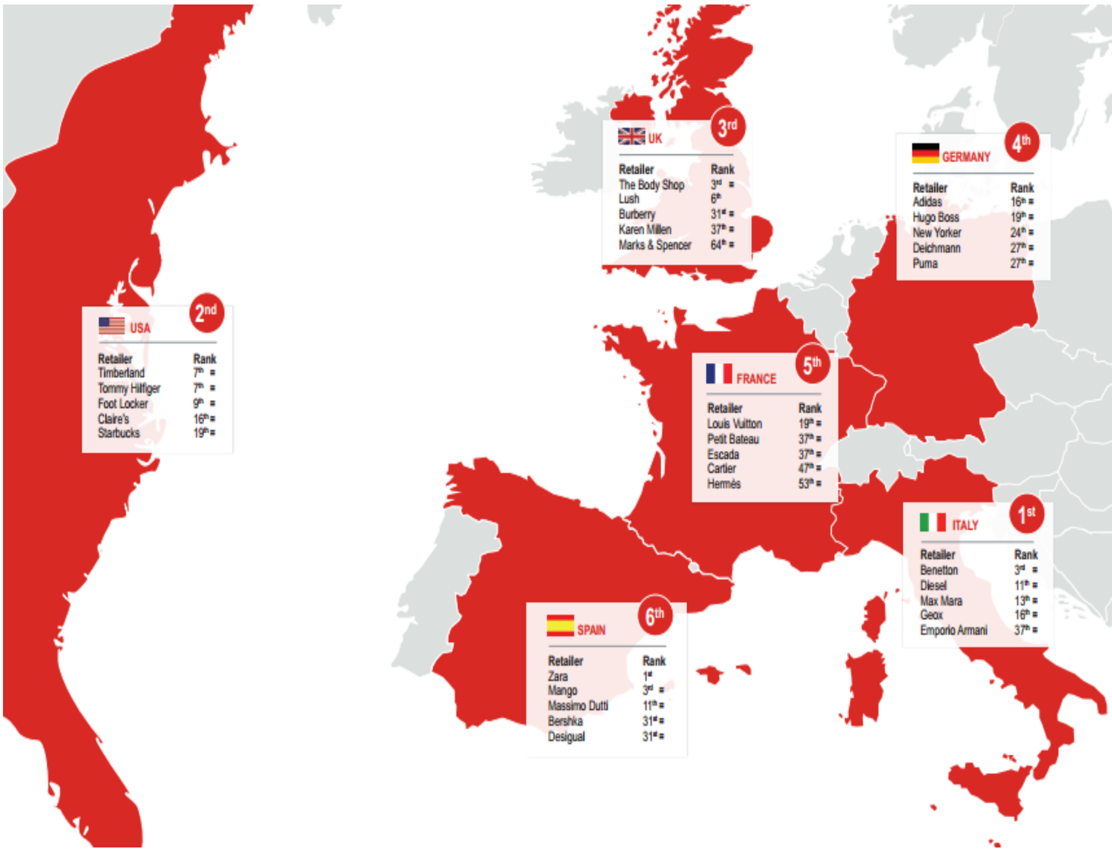
Origin	Openings		Origin	Openings
Italy	443		Denmark	11
USA	149		Japan	9
France	121		Switzerland	8
Spain	63		Canada	7
UK	47		Ireland	6
Germany	38		Portugal	5
Holland	25		China	4
Argentina	22		Australia	1
Sweden	20		Turkey	1
Belgium	12		**Tot.**	**275**

Source: Author's elaboration

Italy stands out as the country of origin more active in the openings of stores, followed by the US and France[15]. This result confirms what emerged in other studies on the subject (Aiello and Guercini, 2010; Moore et al., 2000, 2010; Moore and Doherty, 2007; Guercini and Runfola, 2014), that consider Italy among the most active countries in the fashion industry and in international development via exports and through the opening of direct sales outlets. A similar result is in Destination Europe 2013 report, which considers the expansion and presence of international retailers. Italy, driven by luxury and fashion, is the largest exporter of retail across the key retail cities in Europe, accounting for 17% of total international retailer presence in the 57 European markets covered. It is the strength of the Italian Luxury retailers which accounts for Italy's position at the top of the rankings.

[15] A positive correlation exists between the first position of Italy as a country of brand origin and the source used, Pambianco Magazine, of Italian origin, that covers the 70% of news containing Italy as country of brand origin: in 402 news mentioning Italian brands, 280 news are from Pambianco.

Fig. 7: Top international retailer’s country of origin



Source: Destination Europe 2013

It’s right to clarify about the number of openings from Spain and Sweden. In our research we recorded data incomplete or those related to a large number of openings, but we have not counted in the database for the analysis of the results. For the sake of completeness we intend to cite data left out and explain the reasons for our choice. Mainly, there are two companies related to such operations, for which it deserves to say few words: the Swedish H&M (Hennes and Mauritz) and Spanish Zara (Inditex Group). Taking the example of the year 2012, with respect to H&M, news were found related to the opening of 27 stores in China, 19 in the United States, 15 in Russia, 13 in Germany, 10 in Italy and finally 8 in Poland, Uk and France, for a total of 108 stores in eight countries. With regard to the Group Inditex, we detected several news incomplete such as “*..in the first months of the year, Inditex has opened 91 new stores in 26 different countries”* (Journal du Textile n.2132, June 2012) or “*..the Inditex Group develops its expansion plan with the opening of 166 stores in forty countries*”

(Journal du Textile n.2140, September 2012). In the official website of the Spanish giant, we found that: in the year 2012 Inditex opened 482 stores, bringing the total number of stores to 6009 distributed in 86 countries, under the brands Zara (2/3 of turnover), Pull and Bear, Bershka, Massimo Dutti, Oysho and Stradivarious. Since the incompleteness of the news, we decided to exclude these data to avoid skewing the final results. These two companies represent two important cases of fast fashion in the current landscape of the fashion industry, being definitely among the brands with the greatest coverage in global markets, but since our interest was to analyse the overall picture of the phenomenon of stores opening, we decided to compute only complete news.

Among countries of origin and destination, it's of absolute importance to distinguish between mature and emerging countries. There is no universally accepted definition of emerging countries, nor an official list of countries recognized as such. In practice, a country can't be defined as emerging because it has a certain level of economic growth or inflation, nor a certain fiscal deficit and foreign debt. A rule of thumb is to consider as emerging economies those that are going through a phase of strong industrialization, often characterized by high levels of economic growth and inflation. According to the definition of the World Bank, the first to coin the term "emerging economy", an emerging country is characterized by an average income per capita lower than the world average, but with growth rates higher than Western countries. These two parameters effectively summarize a set of classification criteria that are routinely used to identify an emerging country. Per capita income, gross domestic product, human development indices, geographical position and financial investments are the main criteria that influence the classification of a country as emerging. The major emerging countries to which we refer are: South Korea, China, Malaysia, Thailand, Indonesia, Philippines, India, Central and South America, South Africa and European countries of the former Soviet bloc, such as Russia, Hungary, Poland, Czech Republic, Slovakia, etc. In recent years, the economic development of emerging countries has been impressive, as to be crucial for the entire global growth. The catching-up process that involved the most virtuous emerging countries has brought to the fore a new set of economies, the so-called "frontiers markets" that have recently attracted the attention of investors and analysts. Among the emerging countries, the so-called BRIC have an important role in the world economy. BRIC is a grouping acronym that refers to the countries of Brazil, Russia, India and China, which are all deemed to be at a similar placement of newly advanced economic development. A related acronym is BRICS which includes South Africa. In terms of countries of origin, only 3 are attributable to emerging economies, namely China, Argentina and Turkey, while among the countries of destination, 68 in total, the number of emerging countries largely increases. The dispersion in a geographical sense of the openings of stores is evident with respect to the higher concentration of the countries of origin. However, the top five destination markets accounted for 58% of total new stores recorded, if we extend the analysis to the first 15 countries we find that they are representative of 83% of the entire universe considered. This highlights how the operations on stores by fashion firms appear concentrated in a small number of key markets. Of these 15 major markets identified: 8 can be considered mature countries (France[16], Italy, United States, Germany, Britain, Spain and Japan, Belgium); the remaining seven are emerging countries (China, Russia, Morocco, Hong Kong, India, Brazil, UAE). As we will explore in the section dedicated to Italy, most of the geographical dispersion is due to openings of outlets by Italian companies. As the table shows the countries of destination, Figure 8 shows the trend of openings in the 3 years distinguishing between mature and emerging markets. In 2011 and 2012 openings in mature markets are prevalent. In 2013 there has been a general decline of the openings, and those relating to emerging countries, while remaining stable in value, increase in percentage.

The emerging economies of China and Russia are increasingly important not only in a resource seeking view, related to supply and decentralization of production, but as markets increasingly profitable according to a market seeking view. With regard to emerging markets identified, explanations relating to the choice of this location have been identified in factors such as slow economic growth in Western

[16] A positive correlation exists between the first position of France as country of destination and the source used, Journal du Textile, of French origin, that covers the 91% of news containing France as country of destination: in 263 news mentioning France, 240 news are from Journal du Textile.

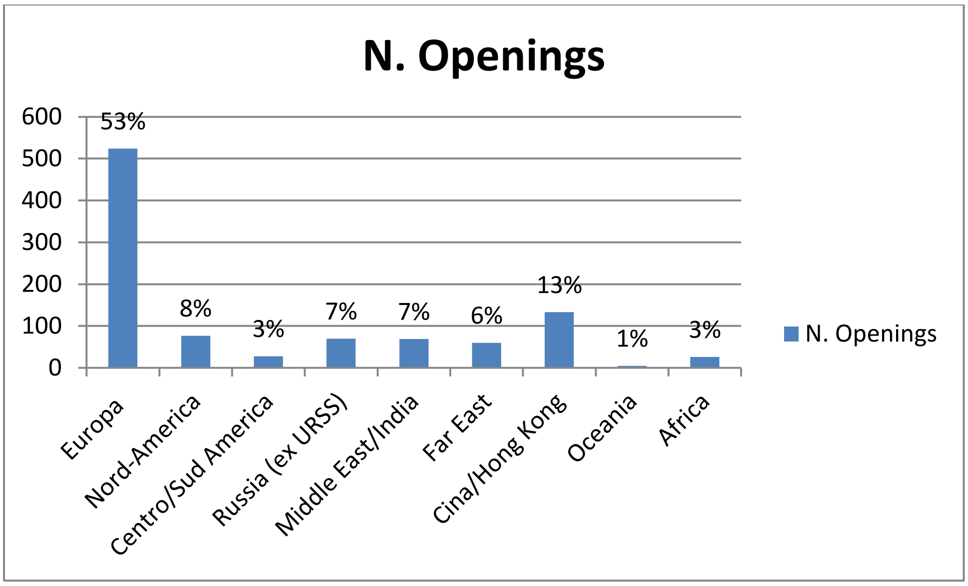
Europe and South America; growing demand of fashion and luxury goods, especially Italian and French products. The role of emerging markets is predominant in relation to luxury goods.

Table 4. Country of destination and stores opening

Country of destination	N. Openings		Country of destination	N. Openings
France	290		Ukraine	4
China	103		Vietnam	4
USA	74		Canada	3
Italy	64		Hungary	3
Russia	44		South Africa	3
Germany	37		Taiwan	3
UK	37		Adzerbaijan	2
Hong Kong	30		Bulgaria	2
Japan	26		Indonesia	2
Spain	25		Jordan	2
Marocco	23		Macao	2
UAE	23		Peru	2
Belgium	16		Portugal	2
Brasil	15		Andorra	1
India	13		Bosnia	1
Holland	11		Colombia	1
South Korea	10		Croatia	1
Switzerland	10		Greece	1
Kazakistan	9		Ireland	1
Turkey	9		Israel	1
Kuwait	8		Lettonia	1
Austria	7		Lituania	1
Malesia	7		Luxembourg	1
Lebanon	6		Malta	1
Panama	6		Mongolia	1
Saudi Arabia	6		Norway	1
Australia	5		Qatar	1
Czech Republic	4		Serbia	1
Denmark	4		Slovenia	1
Mexico	4		Sweden	1
Polland	4		Thailandia	1
Romania	4		Turkmenistan	1
Singapore	4		Uzbekistan	1
			Tot.	**992**

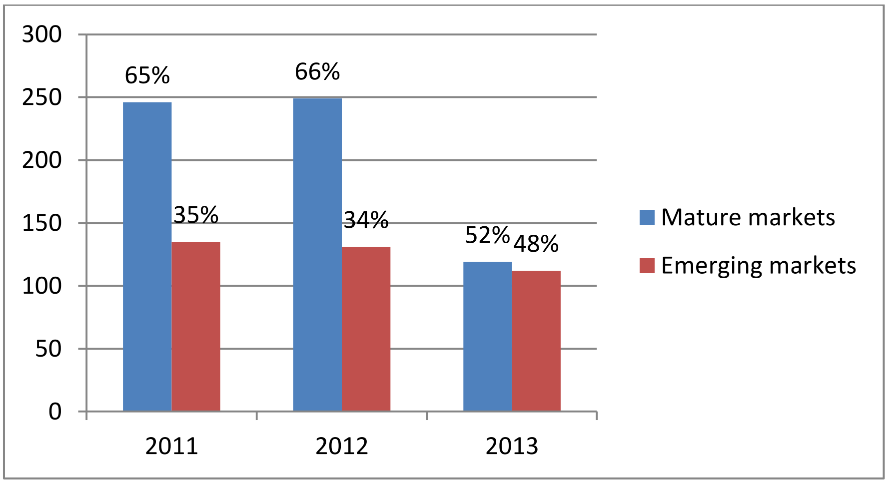
Source: Author’s elaboration

Fig. 8: Openings in macro regions



Source: Author's elaboration

Fig. 9: Stores opening in emerging and mature markets



Source: Author's elaboration

Half of luxury goods sales are made to customers in emerging markets led by China and Russia also have a steady boost in demand for luxury (PriceWaterHouse&Coopers, 2012). These emerging markets have protected the luxury sector from the global economic crisis, since they have not been hit as hard as the industrialized countries. According to research by Fortune Character Institute of Shanghai, specialized in the analysis of the Chinese economy and in particular in the field of luxury goods, Chinese consumers bought in 2013 47% of all luxury goods sold worldwide. The amount spent is around 102 billion $, slightly less than half of what was spent on the whole world, 217 billion. Growth is driven by social factors such as: the increase in the average per capita income and the expansion of the Chinese middle class; the rapid spread of luxury stores, whose number is more than doubled in the last three years; the high potential of penetration of the segment clothing and footwear. The well-known brands in Europe and the US have now developed a consistent presence in China, not only in large urban centres such as Shanghai or Beijing, but also in the so-called “second-tier cities” , which are intended to draw 80% of consumption of clothing and accessories in less than ten years (Boston Consulting Group, 2012). Examples are the city of Hangzhou, Shenyang, Tianjin, Wuhan and Guangzhou.

Among destinations, there are cities most frequently chosen as location by fashion and luxury brands. Paris is the most attractive location for international retailers in Europe. Paris is one of the world’s leading tourist destinations and, along with London, one of the strongest global retail locations. It continues to attract the biggest international and national brands that inevitably look to the city to open flagship stores, in particular the premium and luxury brands. In UK, London ranks as the most attractive location for international retailers; it attracts international brands for a number of reasons, including: size, maturity and transparency of the retail market, in addition to the track record of retailers who have successfully opened here. The four main shopping areas, Oxford Street, Regent Street, Bond Street and Covent Garden, collectively form the largest concentration of retail in Europe. In Russia, Moscow is the most attractive location for international retailers in Europe. There are over 80 shopping centres in the Moscow region, in addition to some prominent areas of high street retail. Tretyakovsky Proezd is the main luxury street, whilst the GUM and TSUM areas, in addition to Petrovka and Stoleshnikov Lane, also host luxury brands. The main streets for local and international mass market brands are Tverskaya, Novy and Stary Arbat. St. Petersburg is another attractive location for international retailers in Russia. St Petersburg is the second largest city in Russia, and a major financial and industrial centre. Nevskiy Prospect is the historic centre of the city and the most popular street, providing a large variety of mass market shops. The openings made in Turkey are concentrated in Istanbul. Turkey is the seventh largest organised retail market in Europe, with a total leasable area of 8.3 million mqs across 332 shopping centres with Istanbul accounting for almost half of this total. The huge market of approximately 13.3 million consumers in Istanbul is viewed by many retailers as the perfect gateway to the Middle East and Caucasus region. The importance of shopping centres in the market is growing, with the likes of Forum Istanbul and Istinye Park trading particularly well. Istanbul's retail culture is still mostly dominated by the high street, however, with Istiklal Street the dominant mass market location on the European side, along with Nişantaşi district, which caters for luxury brands. On the Asian side, Bagdat Street is the most well-known and popular area, featuring a range of local and international brands. Finally, in China Beijing and Shanghai are the first cities in terms of number of openings, especially for Italian and French brands, while American brands seem to prefer the Europe as destination of the openings.

The brands within the database are 275 from the 19 countries of origin above mentioned.

Table 5. Number of brands and country of brand origin

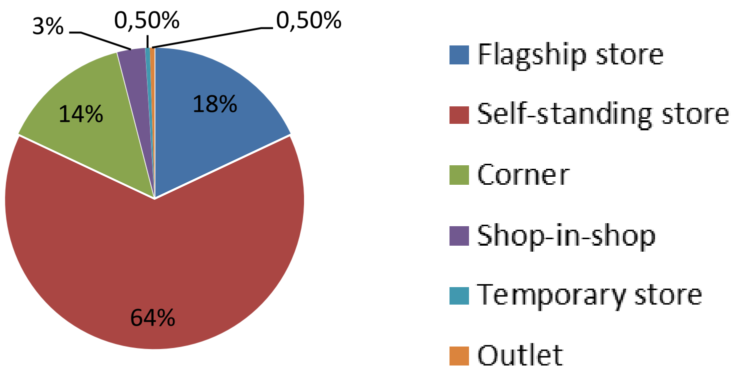
Origin	N.brands		Origin	N.brands
Italy	100		Denmark	2
USA	41		Japan	3
France	48		Switzerland	2
Spain	17		Canada	3
UK	14		Ireland	1
Germany	15		Portugal	1
Holland	7		China	3
Argentina	2		Australia	1
Sweden	6		Turkey	1
Belgium	8		**TOT**	**275**

Source: Author's elaboration

Italy, France and the US are the countries with both the largest number of brands active on the world stage and the largest number of openings. Obviously the first

value has a positive effect on the second, since a greater number of brand operating at international level most likely will result in a greater number of operations attributable to brands of that nationality. The results in this sense are aligned with other researches for which the Italian, French and American brands, among others, are the most widespread at the international level (Moore et al 2000; Moore and Burt 2007)[17]. nonché rivenditori di moda esperti relativamente al prodotto, allo sviluppo del marchio, alla gestione distributiva e alle tecnologie dell'informazione. Un'analisi dettagliata dei brand italiani viene presentata nel paragrafo successivo. The Italian and French brand stand out globally in the field of fashion and luxury for the recognition of the quality of products, the creative content and the design and innovation of products. A detailed analysis of the Italian brand is presented in the next section.
Finally, retail formats are distributed as shown.

Fig. 10: Retail formats in 2011-2013



Source: Author's elaboration

[17] Similarly, our results are in line with the analysis by Deloitte&Touche "Global Power of Retailers". This survey has identified the top 10 retailers by number of stores abroad, for the period June 2011-June 2012; six out of the ten are giants of the fashion world such as LVMH, Inditex, Esprit, Next, Groupe Vivarte, Limited Brands. Groupe Vivarte and LVMH are French, but we must point out that several brand, related to the most active group, LVMH, such as Fendi, Emilio Pucci, Stefano Bi, Bulgari are Italian; Donna Karan and Marc Jacobs are American, Loewe is German, Thomas Pink is British and finally Christian Dior, Louis Vuitton, Berluti, Celine, Givenchy are of French origin. Esprit has its headquarters in Hong Kong, Inditex is Spanish, Next is from the UK and Limited Brands is from the US.
Even in the study mentioned above, Destination Europe 2013, which is an annual report dedicated to retailers by Jones Lang Lasalle, from the analysis of 250 international retailers in 57 countries, Italian retailers, led by the luxury sector, are the ones more present in foreign markets; they are followed by those from the US, UK, Germany, France and Spain.

The self-standing store, which is a mono-brand store located in shopping streets, is the predominant format. Afterwards, the flagship store confirms its fundamental role for fashion and luxury retailers. Among other formats, the corner, which is a store located inside shopping malls, occupies an important position. Other retail formats mentioned in the database but not relevant are the shop-in-shop, the temporary stores and the factory outlet. The self-standing store and the flagship store are not only preferred for their economic performance – which sometimes can be negative due to high rental costs in expensive locations – but also because they allow greater control of the brand, a close contact with customers and the development of the brand in foreign markets. Only a minority of the news recorded in the database contains information on the type of ownership, with the exception of the flagship store, the entirety of which is owned by the company through foreign subsidiaries and directly managed for the above reasons. Other types of ownership found in the news, that deserve mention despite not having a numerical significance, are franchising and partnership agreements with local partners, especially in emerging such as Russia and China.

3.4 A focus on Italian brands

Within the database, Italy is the first country of brand origin and the first country by number of brands that open stores as entry mode into foreign countries. The purpose of this section is to get into the detail of the openings of stores by Italian brands. In particular, we will focus on the 100 brands in the database, with the aim to address the following points:

- ✓ which are the 100 brand in the database and which are the most active in the openings of stores abroad;
- ✓ countries of destination of the openings;
- ✓ firm size: small, medium or large firms;
- ✓ Localization of firms in industrial districts.

3.4.1 The Italian textile-apparel industry

The textile-apparel sector has always been one of the areas of excellence of the "Made in Italy", as shown not only by its economic figures, but especially by its position on world markets. The factors which contribute to the success of Italian textiles are primarily the ability to couple innovativeness, fashion and a creative style with production technologies. The Italian textile-apparel industry is, by tradition, particularly diversified and complete, with Italian-based companies producing semi-finished products such as yarns and raw and finished fabrics, and companies producing underwear, clothing and household linens. The industry businesses also cover the entire range of fibers, with cotton, linen, silk and wool producers flanking others working in synthetics. Raw materials – natural and synthetic textile fibers – are the common denominator in an industry which is otherwise quite variegated in terms of processing technologies (and consequently, in terms of the relative weights of capital vs. labor in production) and outlet markets, either business-to-business or business-to-consumer depending on the company's position in the industry.

The t/a industry is distributed throughout Italy, although there are a number of industrial districts that are particular focal points, including Biella, Carpi, Castel Goffredo, Como, Prato, and Vicenza, characterized by sectorial economies of scale and inter-company synergies. Industrial districts are dense concentrations of interdependent small- and medium sized enterprises (SMEs) in a single sector and in auxiliary industries and services. The literature on these districts tends to fall into the initial ideas of Marshall (1890). Marshall argued that districts are driven economically by three mechanisms: (1) scale economies, which result from a high degree of specialization and division of labor; (2) external economies, which arise from the existence of shared infrastructures, services, and information; and (3) the availability of special skills and the pooling of the workforce, which, for example, allow individual enterprises to adjust their size and composition rapidly without jeopardizing employment and the reproduction of skills at a system level. Producers are prevalently highly specialized small-to-medium businesses often operating in niche markets. Although the textile and apparel sector is highly fragmented, it is recomposed within the industrial districts. The main districts related to this field are those located in Biella (yarns and wool), Bergamo, Vicenza (yarns and wool), Prato (yarns and wool), Como (silk), Carpi and Treviso (knitwear). The companies mainly working in the preparation and spinning of textile fibres are especially located in Lombardy (cotton, flax, silk and sewing threads), Piedmont (combed wool), Tuscany (carded cycle and hoarding of synthetic or artificial yarns). The companies that are involved in cotton weaving are mainly located in Lombardy, while wool weaving (carded and combed) is especially located in Tuscany. The creation of knitwear is particularly concentrated in Tuscany and Emilia-Romagna. The southern part of Italy is mainly characterised by companies specialised in the creation of knitwear with high-quality products dedicated to the top market and by a large number of companies working on behalf of a third party.

But there are also multinational groups, especially in the luxury segment, that are vertically integrated also in their distribution systems. Moreover, the retail distribution of apparel in Italy also has certain unique features, in particular the persistence of the strategic group of independent retailers, whose market share is declining but they still occupy a majority position within the total market of apparel consumption (Guercini, 2004b).

The expertise and competence, flexibility (ensuring quick response and customization), continuing and incremental innovation (in materials, products and processes), creativity and style that characterize Italian-made production are the main assets that determine its quality and excellence on the world stage. The t/a is a sector of great economic importance for Italy: it is the third manufacturing sector, which has still nearly 420,000 employees and 50,000 companies operating in the area; Italy is the third largest exporter after China and Germany. The sector traditionally generates a trade surplus, second only to that of mechanics.

Table 6. The Italian textile-apparel industry (2008-2013)

Million euros

	2008	2009	2010	2011	2012	2013
Reveues	54.718	46.312	49.660	52.768	51.090	50.720
Var.%		-15,4	7,2	6,3	-3,2	-0,7
Exportation	27.586	22.243	24.604	26.911	26.958	27.414
Var.%		-19,4	10,6	9,6	0,2	1,7
Importation	17.669	15.856	18.566	20.342	18.126	17.868
Var.%		-10,3	17,1	9,6	-10,9	-1,4
Trade balance	9.917	6.387	6.039	6.569	8.832	9.545
Var.%		-35,6	-5,4	8,8	34,5	8,1
Companies (no.)	56.610	54.493	53.086	51.873	50.039	48.590
Var.%		-3,7	-2,6	-2,3	-3,5	-2,9
Employees (thousands)	508,2	482,3	458,6	446,9	423,3	412,3
		-5,1	-4,9	-2,6	-5,3	-2,6
Structural indicators (%)						
Export/Revenues	50,4	48	49,5	51	52,2	54
Propensity to import (to Rev.)	39,4	39,7	42,6	44	42,4	43,4

Source: SMI – Sistema Moda Italia from data ISTAT

The international competitiveness of t/a is due to investments in innovation, R&D, know-how and synergistic collaboration between the various stages of the supply chain, up to the integration with the retail.

The Italian offer is placed on a high positioning and is aimed at both traditional markets of Europe and new emerging realities. Given the slow growth of mature markets, there are interesting opportunities in emerging markets, provided that firms are able to seize the ample opportunities offered by the catching-up process of consumers' income in these countries, bringing them closer to the offer of Made in Italy. Today Italian textile manufacturing firms are experiencing an economic downturn, which is partly due to the crisis in international consumption, but is partly also a structural problem deriving mainly from the change in customer base and the emergence of new international competitors (Guercini, 2004b). In this scenario, what is beginning to emerge is the figure of the retailer who integrates industrial capabilities (sourcing of semi-finished textiles, apparel design, product branding), as outlined in previous chapter.

3.4.2 Stores opening by Italian brands

The database of stores opening in 2011-2013 includes 100 Italian brands. Such analysis of the database therefore reveals that international expansion through stores opening abroad is a phenomenon that concerns quite a number of small and medium Italian enterprises within the fashion system, enough, in fact, to outnumber the large enterprises in terms of the brands involved. This number (100 Italian brands opened retail stores abroad between 2011 and 2013) testifies to the substantial nature of the phenomenon and that it is not limited to only a few large enterprises, but involves small and medium-sized enterprises (SMEs) as well.

Table 7. Italian brands and number of openings

Brand	Openings	Brand	Openings	Brand	Openings
Armani	25	Navigare	4	Piazza Sempione	2
Prada	23	Stefanel	4	Talco	2
Lubiam	20	Stone Island	4	10 Corso Como	1
Marina Rinaldi	16	Antony Morato	3	120% Lino	1
Camicissima	14	Boggi	3	Alberta Ferretti	1
Harmont&Blaine	14	Brooksfield	3	Anna Rachele	1
Kiton	14	Cruciani	3	Blumarine	1
Roberto Cavalli	14	Ermanno Scervino	3	Cerruti	1
Salvatore Ferragamo	13	Ermenegildo Zegna	3	Chervo	1
Liu Jo	12	Gaudi	3	Dolce&Gabbana	1
Monnalisa	12	Luisa Spagnoli	3	Doriani	1
Elisabetta Franchi	11	Max Mara	3	E.Marinella	1
Miu Miu	10	Missoni	3	Elena Mirò	1
Moncler	10	Peuterey	3	Fiorella Rubino	1
Brunello Cucinelli	9	Pinko	3	Fracomina	1
Gas	9	Replay	3	Gianbattista Valli	1
Stefano Ricci	9	Silvan Heach	3	Ice Iceberg	1
Diesel	7	Tombolini	3	Il Gufo	1
Franklin&Marshall	7	Ballantyne	2	Imperial	1
Subdued	7	Brioni	2	Jacob Cohen	1
Benetton	6	Canali	2	Krizia	1
List	5	Corneliani	2	Lorena Antoniazzi	1
Miss Grant	5	Costume National	2	Maria Grazia Severi	1
Montegrappa	5	Etro	2	Met	1
Original Marines	5	Falconeri	2	Modyva	1
Valentino	5	Fedeli Cashemere	2	Nara Camice	1
Versace	5	Fix Design	2	Okaidi	1
Dsquared	4	Gianfranco Ferrè	2	Pal Zileri	1
Emilio Pucci	4	Herno	2	Simonetta	1
Gucci	4	I Pinco Pallino	2	Trussardi	1
Mauro Grifoni	4	Intimissimi	2	Who's Who	1
Mcs	4	Maliparmi	2	Napapijiri	1
Messori	4	Mirtillo	2	TOT.	443
Moschino	4	Nolita	2		

Source: Author's elaboration

Not only is the number of enterprises opening retail outlets in foreign countries considerable, but the geographic distribution of these operations covers quite a large area. In the timeframe considered, Italian fashion enterprises opened retail stores throughout a wide number of countries. Among 68 countries of destination in the database, 56 are the countries of destionation of openings by Italian brands.

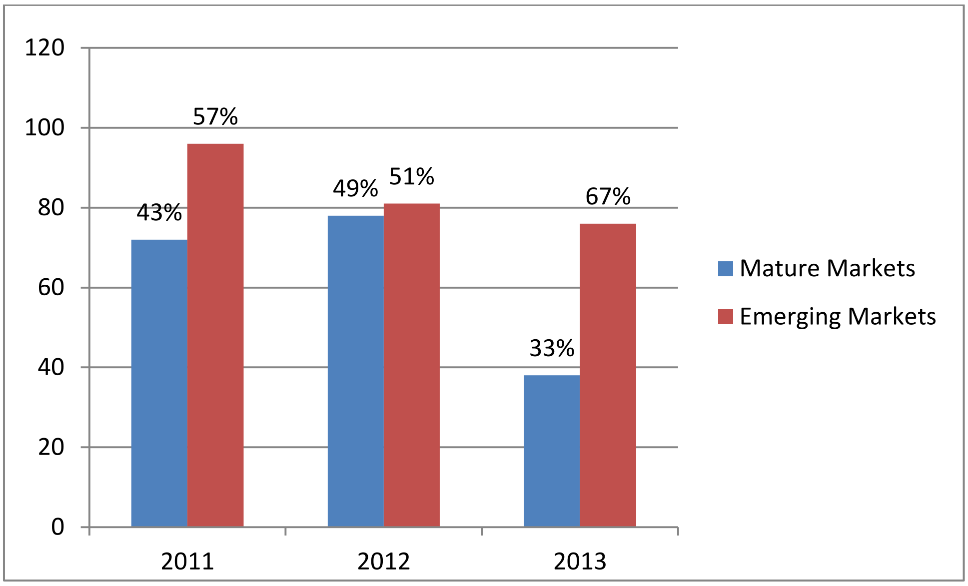
Table 8. Country of destination and stores opening by Italia brands

Country of destination	Openings	Country of destination	Openings
France	78	Polland	4
China	75	Romania	4
USA	28	Singapore	3
Russia	32	Ukraine	4
Germany	17	Vietnam	2
UK	10	Hungary	2
Hong Kong	10	South Africa	1
Japan	20	Adzerbaijan	2
Spain	9	Bulgaria	2
Marocco	7	Indonesia	2
UAE	18	Jordan	1
Belgium	7	Macao	1
Brasil	12	Peru	1
India	11	Portugal	1
Holland	4	Bosnia	1
South Korea	8	Colombia	1
Switzerland	5	Croatia	1
Kazakistan	9	Ireland	1
Turkey	6	Lettonia	1
Kuwait	4	Lituania	1
Austria	5	Malta	1
Malesia	3	Mongolia	1
Lebanon	3	Serbia	1
Panama	6	Slovenia	1
Saudi Arabia	4	Sweden	1
Czech Republic	3	Thailandia	1
Denmark	3	Turkmenistan	1
Mexico	2	Uzbekistan	1
		Tot.	443

Source: Author's elaboration

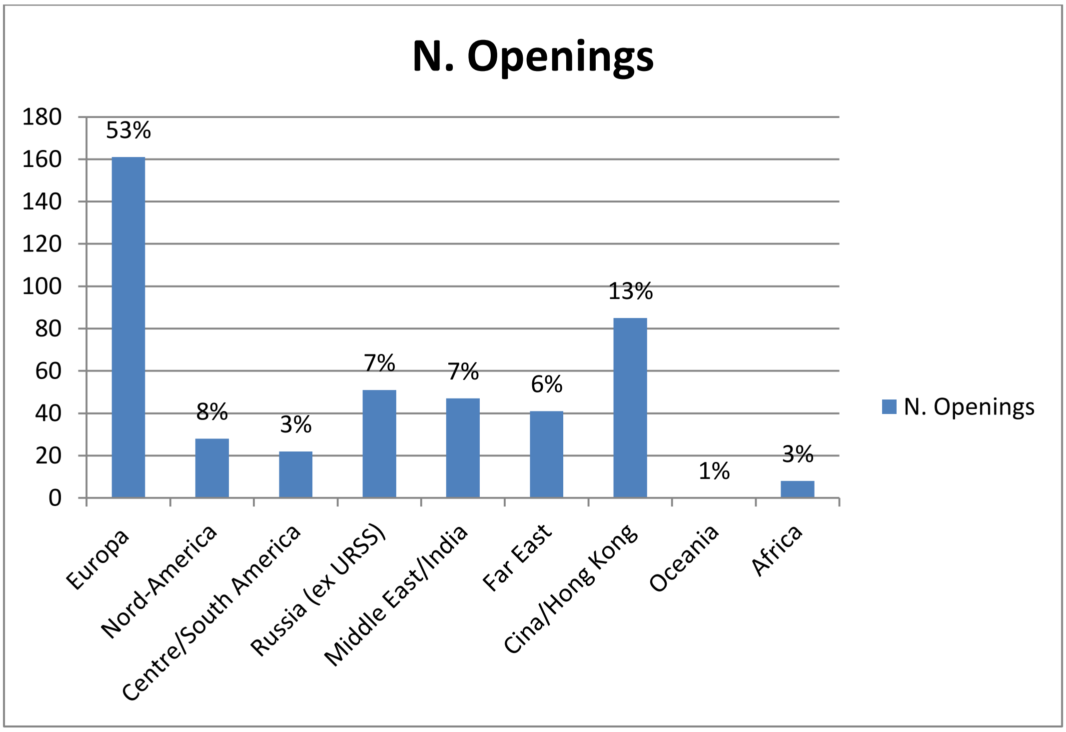
As it is evident from the list, new Italian stores have been opened in developed as well as emerging countries, the greatest number of stores opening events being in France, China, United States and Russia. In the three years, the weight of emerging countries is always higher than mature countries as shown in Figure 11.

Fig. 11: Stores opening in emerging and mature markets by Italian brands



Source: Author’s elaboration

Fig. 12: Italian openings in macro regions



Source: Author’s elaboration

Not all the brands involved in the openings are associated to large companies. Reading the list of brands and identifying the relating companies has allowed us to state that the phenomenon of retail stores opening abroad is not limited to large Italian fashion firms, but concerns small and medium-sized ones as well. In particular, through the database AIDA it was possible to build a profile for each brand in terms of: company, turnover, total assets, employees, localization. This allows us to understand the size of companies that open stores, and their localization (whether in industrial districts or not). The analysis of annual financial statements of 100 companies related to as many brand is summarized in the following table. The main factors determining whether a company is an SME, according to the definition of EU, are:

1. number of employees and;
2. either turnover or balance sheet total.

Table 9. Definition of SMEs

Company category	Employees	Turnover	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m
Small	< 50	≤ € 10 m	≤ € 10 m
Micro	< 10	≤ € 2 m	≤ € 2 m

Source: EU definition of SMEs

On the basis of this indicators, 47% of companies in the database are SMEs, 53% of companies are large. In Table 11, companies are ordered by turnover, which is considered to be the most relevant and meaningful indicator of size. The number of employees sometimes may not be significant for several reasons, including the outsourcing of production or the high profitability on single products, especially in the luxury sector. Dividing companies between SMEs and Large, it is possible to identify the countries of destination of the openings for both categories. The results are reported in Table 10, and show that even the SMEs, as well as being active in the opening of outlets (167 openings, i.e. 38%), are in markets, also emerging markets, geographically and psychically distant.

Table 10. SMEs and large companies

	Country (N. Firms in each country)	Openings
SMEs	China (15); Russia (11); UAE (10); France (9); Kazakistan (5); USA (4); UK (4); South Korea (4); Japan (3); Kuwait (3); Spain (2); India (2); Saudi Arabia (2); Singapore (2); Ukraine (2); Germany (1); Belgium (1); Brasil (1); Holland (1); Switzerland (1); Turkey (1); Panama (1); Polland (1); Romania (1); Hungary (1); South Africa (1); Adzerbaijan (1); Serbia (1); Lettonia (1)	**167 (38%)**
Large Companies	France (26); China (13); Russia (12); USA (10); Japan (9); Germany (8); Marocco (6); UK (5); Hong Kong (5); Belgium (5); Brasil (5); Austria (5); Turkey (4); Spain (3); UAE (3); Holland (3); Switzerland (3); Lebanon (3); Denmark (3); Romania (3); India (2); South Korea (2); Kazakistan (2); Malesia (2); Saudi Arabia (2); Czech Republic (2); Mexico (2); Ukraine (2); Indonesia (2); Panama (1); Polland (1); Singapore (1); Vietnam (1); Hungary (1); Bulgaria (1); Jordan (1); Macao (1); Peru (1); Portugal (1); Bosnia (1); Colombia (1); Croatia (1); Ireland (1); Lettonia (1); Lituania (1); Malta (1); Mongolia (1); Slovenia (1); Sweden (1); Thailandia (1); Turkmenistan (1); Uzbekistan (1)	**276 (62%)**

Source: author's elaboration

From the point of view of the localization of companies, Centre-North Italy is prevalent. Milan (which can be considered the Italian fashion capital) is the leading location with 20 companies that have settled there. Among industrial districts, we can mention: Treviso (6); Florence (6) (the main textile industrial district in Tuscany is Prato, but the extended area that includes Florence, Pistoia and Empoli can be considered as a fashion district ranging from yarns, fabrics, clothing and leather); Vicenza (5); Carpi (4) and Biella (3). A possible future development of research would be to investigate the link between localization in industrial districts and stores opening, in order to understand what elements typical of the industrial district may contribute to the downstream development of companies through stores opening. A first step in this direction is done in the case analysis in next chapter, through the case of Gruppo Sartoriale International (brand Montezemolo), a small company located in the industrial district of Prato.

Table 11. Data from 100 companies' annual reports (Source: author's elaboration)

Brand	Company	Turnover	Total Assets	Empolyees	Place	Notes
Prada	Prada Spa	2.004.115.000	2.665.260.000	3.300	Milan - Arezzo	
Miu Miu	Prada Spa	2.004.115.000	2.665.260.000	3.300	Milan	
Armani	Giorgio Armani Spa	1.650.599.838	1.588.099.975	928	Milan	
Falconeri	Calzedonia Spa	1.470.739.115	1.105.734.278	2.391	Verona	
Intimissimi	Calzedonia Spa	1.470.739.115	1.105.734.278	2.391	Verona	
Ermenegildo Zegna	Ermenegildo Zegna Holditalia Spa	1.260.892.000	1.423.673.000	658	Biella	*Annual Report 2012*
Benetton	Bencom Srl	1.190.186.491	1.561.040.404	1.916	Treviso	
Okaidi	Id group Spa	763.000.000	_	_	_	*Data from company's website*
Dolce&Gabbana	Dolce&Gabbana Srl	750.334.984	1.049.448.769	1.980	Milan	
Salvatore Ferragamo	Salvatore Ferragamo Spa	721.092.000	509.171.000	821	Florence	
Moncler	Moncler Spa	580.577.000	825.625.000	1.376	Milan	
Valentino	Valentino Fashion Group Spa	551.754.000	905.788.000	2.056	Milan - Vicenza	
Gucci	Gucci Logistica Spa	502.362.564	286.408.995	557	Florence	
Max Mara	Max Mara Srl	483.303.290	504.365.031	488	Reggio Emilia	
Elena Mirò	Miroglio Fashion Srl	482.470.079	243.381.595	4.542	Alba	
Fiorella Rubino	Miroglio Fashion Srl	482.470.079	243.381.595	4.542	Alba	
Diesel	Diesel Spa	447.276.840	922.760.663	729	Breganze	
Versace	Gianni Versace Spa	293.048.186	412.044.687	514	Milan	
Brunello Cucinelli	Brunello Cucinelli Spa	262.372.000	263.937.000	679	Perugia	
Liu Jo	Liu Jo Spa	252.880.368	286.982.362	499	Carpi	
Etro	Etro Spa	226.143.271	352.428.480	412	Milan	
Canali	Canali Spa	192.497.280	161.958.050	1.525	Monza	
Roberto Cavalli	Roberto Cavalli Spa	172.489.014	227.613.199	509	Florence	
Marina Rinaldi	Marina Rinaldi Srl	159.679.679	108.889.851	625	Reggio Emilia	
Imperial	Imperial Spa	153.758.894	109.131.487	212	Bologna	
Original Marines	Imap Export Spa	149.610.685	121.102.010	143	Nola	*Annual Report 2012*

Brand	Company	Turnover	Total Assets	Empolyees	Place	Notes
Original Marines	Imap Export Spa	149.610.685	121.102.010	143	Nola	*Annual Report 2012*
Replay	Fashion Box Spa	147.659.001	185.063.403	388	Treviso	
Pinko	Cris Conf Spa	139.896.159	122.253.366	506	Fidenza	
Stefano Ricci	Stefano Ricci Spa	133.032.083	110.769.383	250	Florence	
Corneliani	Corneliani Spa	125.448.875	125.981.916	604	Mantova	
Luisa Spagnoli	Luisa Spagnoli Spa	124.805.742	110.304.862	811	Perugia	
Pal Zileri	Forall Confezioni Srl	118.819.535	116.466.797	780	Vicenza	
Alberta Ferretti	Aeffe Spa	114.806.000	299.061.000	542	Rimini	
Elisabetta Franchi	Betty Blue Spa	105.515.773	71.791.833	132	Bologna	
Stefanel	Stefanel Spa	102.590.000	184.557.000	587	Treviso	
Brioni	Brioni Spa	93.100.430	204.145.121	122	Pescara	
Boggi	BBB Spa	88.609.955	36.066.243	408	Monza	
Met	Italservices Spa	87.835.514	90.214.236	127	Padova	
Emilio Pucci	Emilio Pucci Srl	85.212.728	41.593.835	155	Florence	
Peuterey	Peuterey Group Spa	83.429.434	117.423.754	46	Lucca	
Gas	Grotto Spa	82.881.952	116.942.253	187	Vicenza	
Ice Iceberg	Gilmar Divisione Industria Spa	80.357.613	113.791.656	420	Rimini	
Antony Morato	Essedi Spa	73.939.426	52.248.552	99	Naple	
Stone Island	Sportswear Company Spa	64.587.010	68.080.647	115	Bologna	
Missoni	Missoni Spa	64.314.798	60.682.193	255	Varese	
Ermanno Scervino	Dernamaria Srl	62.363.142	58.461.340	200	Florence	
Blumarine	Blufin Spa	61.279.903	47.962.887	156	Carpi	
Harmont & Blaine	Harmont & Blaine Spa	57.056.398	58.767.198	257	Naple	
Gaudi	Gaudi Trade Spa	53.960.928	48.678.807	184	Carpi	
Cerruti	Lanificio F.lli Cerruti Spa	51.747.676	64.473.192	419	Biella	

Brand	Company	Turnover	Total Assets	Empolyees	Place	Notes
Dsquared	Dsquared 2 Spa	49.395.651	30.837.033	118	Milan	
Herno	Herno Spa	49.200.692	34.009.123	123	Novara	
Fix Design	Fix Design Srl	48.284.767	20.188.191	41	Monza	
Brooksfield	Beta Spa	47.044.183	42.331.418	79	Biella	
Simonetta	Simonetta Spa	42.388.481	46.891.058	138	Ancona	
Moschino	Moschino Spa	41.723.936	106.893.110	130	Rimini	
Lubiam	Lubiam Moda per l'Uomo Spa	39.813.058	68.602.888	267	Mantova	
Monnalisa	Società Monnalisa Spa	38.849.071	34.967.032	70	Arezzo	
Camicissima	Fenicia Spa	38.508.623	39.235.076	353	Milan	
Franklin&Marshall	Franklin&Marshall Srl	37.287.121	25.502.849	61	Verona	
Nara Camicie	Passaggio Obbligato Spa	34.253.993	49.943.820	71	Venice	
Navigare	Manifattura Riese Spa	32.280.564	28.791.879	89	Reggio Emilia	
Subdued	Osit Impresa Spa	29.871.800	17.476.562	82	Rome	
Silvian Heach	Arav Fashion Spa	28.641.028	49.455.299	204	Naple	
Maliparmi	Magicoral Srl	26.239.415	20.393.284	70	Padova	
Mauro Grifoni	Manila Spa	25.019.606	26.576.135	62	Vicenza	
Gianfranco Ferrè	Peris Group Srl	23.601.459	41.507.841	64	Milan	*Annual Report 2012*
Maria Grazia Severi	Maria Grazia Severi Spa	22.099.616	18.411.950	50	Modena	
Who's Who	Max Company Spa	21.149.602	31.716.178	43	Milan	
Il Gufo	Il Gufo Spa	20.958.916	18.133.886	62	Treviso	
Trussardi	Trussardi Spa	19.437.510	84.050.188	43	Milan	
Fracomina	P.F.C.M.N.A. Spa	18.887.859	15.142.248	39	Naple	
Mcs	Mcs Cavaliere Srl	18.557.789	72.151.855	138	Vicenza	
Tombolini	Tombolini Industrie Srl	17.644.972	22.401.298	164	Macerata	

Brand	Company	Turnover	Total Assets	Empolyees	Place	Notes
Nolita	It's News Spa	17.204.131	21.294.170	46	Padova	
Miss Grant	Grant Spa	17.164.144	20.296.926	49	Bentivoglio	
Lorena Antoniazzi	Sterne International Spa	16.009.603	13.642.013	55	Perugia	
Talco	Berton line Srl	15.416.844	10.460.266	30	Rome	
Chervo	Chervo Spa	15.158.147	12.531.701	14	Bolzano	
List	List Fashion Group Spa	14.577.107	8.312.125	39	Rome	
Fedeli Cashemere	Luigi Fedeli e Figlio Srl	12.267.971	14.171.192	75	Monza	
E.Marinella	E.Marinella Srl	10.698.846	17.899.337	28	Naple	
Anna Rachele	Sintesi Fashion Group	9.567.396	6.962.634	23	Carpi	
Cruciani	Arnaldo Caprai Gruppo Tessile Spa	9.174.845	14.789.436	43	Foligno	
I Pinco Pallino	Pinco Pallino Spa	8.957.393	4.482.618	79	Bergamo	*Insolvent company*
120% Lino	Palladium Moda Srl	7.082.096	8.693.213	35	Bologna	
Ballantyne	Alpha Srl	6.678.715	12.243.262	29	Treviso	*Liquidation procedure*
10 Corso Como	Dieci Srl	6.338.139	11.704.830	34	Milan	*Annual Report 2014*
Kiton	Kiton Italia Srl	5.920.233	9.613.333	10	Milan	
Mirtillo	Unishop Srl	5.097.058	1.816.449	17	Milan	
Jacob Cohen	Giada Spa	4.546.999	19.240.203	6	Milan	
Doriani	Storm Srl	4.370.548	3.030.225	14	Milan	
Modyva	Linea Fontani Srl	4.112.984	9.396.638	24	Empoli	
Messori	Messori Italia Srl	1.895.504	1.175.113	10	Modena	
Costume National	E.C. Spa	1.437.018	30.891.385	12	Milan	
Montegrappa	Maglierie Montegrappa Srl	132.394	834.671	32	Treviso	*Liquidation procedure*
Napapijiri	VF Internationa Sagl	_	_	_	Switzerland	
Krizia	Krizia International Srl	_	_	_	Milan	*Data not available*
Piazza Sempione	Piazza Sempione Srl - in liquidazione	_	_	_	_	*Liquidation procedure*
Gianbattista Valli	_	_	_	_	_	*Data not available*

CHAPTER 4. LIABILITIES, BUSINESS RELATIONSHIPS AND STORES OPENING: EVIDENCES FROM CASE ANALYSIS

4.1 Methodological notes

Our aim is to analyse liabilities in internationalization and business relationships in the process of international expansion through stores opening abroad by textile-apparel firms, using as a research approach the case analysis. This methodology, as mentioned in Chapter 2, is one of the most commonly used qualitative approaches in the field of marketing and management. The cases presented here are based on a number of data sources: in-depth interviews; company website and annual reports; date published in fashion magazines and journals; company internal reports. This is to ensure the robustness of the data, following the so-called "triangulation" (Eisenhardt, 1989; Barrat et al., 2011). Although the methodology presents limitations, as mentioned previously, the use of case studies can be justified as a research approach when: existing theory has some gaps in explaining the phenomenon under investigation; there are situations in which the context and the experience of the actors are relevant; research is exploratory (Barrat et al., 2011). The cases have been selected according to the following criteria: internationalizing firms; long textile/apparel tradition; process of internationalization over the years; retail expansion through stores opening abroad; manufacturing and retailing competencies. In addition to these criteria, there is also the availability/will of the entrepreneur and managers to be involved in the research process.

Considering these aspects, we present the cases of three companies involved in the international expansion through the opening of stores, directly or third-parties operated. For each case we present the company profile, the internationalization process implemented, the openings of stores, with particular emphasis on the liabilities incurred and the role of business relationships for internationalization.

In a business network context, we use the perspective of the focal firm. In line with the idea of "macroposition" expressed by Johanson and Mattsson (1988), we describe: the role and importance of the firm in the network; the identity of the other firms with which the firm has direct relationships and indirect relationships in the network; the strength of relationships with the other firms. By using the perspective of the focal firm, we provide a description of the actor-network. We consider the perceptions of an actor, namely the entrepreneur and managers directly involved in the internationalization process of the firm, in the definition of network boundaries (Anderson et al., 1994). The definition of network horizon or context as a perception of an actor means that the network boundaries are defined through the informants used in the empirical study. In this sense, the actor's view of the network delimits the outer boundaries of a network, defining the network horizon; that part of the network horizon that the actor considers relevant defines the network context. The perceived context includes the actors and their relationships that the actor regards as relevant, the activities performed in the network and the resources used and created within it. We provide a thorough description of the case to reveal the complexities involved in the functioning of the network, presenting and displaying data in the form of narratives and illustrative figures and schemes. In dealing with the problem of time in this type of studies, we include different temporal dimensions represented in terms of past – historical events and the internationalization process of the firm over time – presents and some notes on the future development of the firm, in a longitudinal perspective (Easton, 1995).

Table 12. Methodology

Brand/firm	**Data Sources**	**Interviews**
Luisa Spagnoli	Company website - Annual reports (from 2008 to 2013) - Data published in fashion magazines and journals - In-depth interviews	One interview with Gianluca Sirotti, Export Director, and Paola Manganini, Marketing and Communication Manager
Stefano Ricci	Company website - Annual reports (from 2008 to 2013) - Data published in fashion magazines and journals - In-depth interviews - Company internal reports	Four interviews (in 2011, 2013 and 2014) with the CEO Niccolò Ricci
Montezemolo (Gruppo Sartoriale Srl)	- Company website - Annual reports (from 2008 to 2013) - Data published in fashion magazines and journals - In-depth interviews - Company internal reports	Three interviews (in 2013 and 2014) with the entrepreneur Lorenzo Guazzini.

Source: Author's elaboration

4.2 The case of Luisa Spagnoli

"A tale of history, tradition and culture. The story of Luisa Spagnoli is one of success founded on the great skills and creativity of a woman who marked an era, inspiring future generations"

Among the three cases presented, Luisa Spagnoli is definitely the company with the longest tradition in apparel, with its more than 80 years of history. Established in Perugia in 1928, Luisa Spagnoli sells women clothing of medium-high positioning. The company is still family owned and represents an interesting case for the international development and attention to the role of the store. Luisa Spagnoli is among the first Italian companies to have focused, decades ago, on the distribution in mono-brand stores, first in Italy and then abroad. In the following paragraphs we describe the history of the company and its current size in terms of turnover, employees and other indicators from the financial statements; the internal and external organization of activities; the internationalization of the company with particular attention to the opening of stores and problems connected to the process of internationalization; the representation of the business network.

4.2.1 Company profile

The company's history began around 1928 thanks to the entrepreneurial spirit of Luisa Spagnoli. Born in Perugia in 1877, endowed with modernity and great creativity, she founded two large companies, Perugina[18], and Luisa Spagnoli, both of which played a major role in the industrialisation process of Umbria and of Italy itself. Luisa anticipated the evolution of the presence of women in the work world by half a century, not only for her role as entrepreneur, but also for the integration of women in the industrial sector.

In 1928 Luisa first introduced the use of angora yarn to produce knit garments. From the hair of a particular breed of rabbits (the breeding of which started on the grounds

[18] Perugina is an Italian confectionery company based in Perugia, Italy. The company was founded in 1907 by Giovanni Buitoni and Luisa Spagnoli. The company was introduced to the United States at the 1939 World's Fair in New York, and has since become known for producing fine chocolates all around the world. The company produces a wide array of chocolate and food products, including chocolate bars, hard candy, nougat, and biscotti. Perugina is now a division of the Nestlé corporation.

of her villa in Perugia), she obtained a homogeneous and thin yarn with which she began the production of refined manufactures, obtaining great success in the field of fashion at the time which determined the development of a thriving business and the creation of nearly one hundred jobs. Until then, the breeding of the Angora rabbit had not interested Italian farmers much. In Italy, there was yarn of foreign origins for sale, which when knitted, provided over-sized garments which were barely considered at all. Luisa Spagnoli, already known for her many industrial and agricultural activities, was the first to detect these deficiencies. At her Santa Lucia farm, she began experimenting with the selection of the Angora rabbit. During the same period, by harnessing the ability of Italian women to spin by hand, she achieved results never before obtained with regard to the subtlety and the uniformity of the yarn. Thus the first Italian Angora clothing was born, which was immediately a great success. The Spagnoli garments, for the texture of the fabric, the classical nature and elegance of the lines and colours, immediately aroused the favour of buyers, both Italian and foreign, who considered them far superior to all the angora products on the market at the time. This is how the requirements for a new and purely Italian business were established, designed to exploit the valuable characteristics of a domestic raw material.

After the premature passing of Luisa Spagnoli, in 1935, the leadership of the company was taken over by her son Mario. In 10 years' time, he spread the recognition of the company to the national and international markets, giving the business the characteristics of a true industry, all the while continuing to ensure the quality and taste requirements that are typical of a handmade product. On 12 April 1937 the company was registered at the Chamber of Commerce of Perugia as a sole trader. The innovativeness of Mario Spagnoli lies in having provided the Company with its own commercial network devoted exclusively to the sale of its products. The first Luisa Spagnoli store was opened in Perugia in 1940. In the following years, other stores were opened in Florence, Rome, Venice, Naples and Milan, bringing the presence of the Luisa Spagnoli brand to the main streets and squares of the most important Italian cities. In 1943 Spagnoli Angora was recognized as the largest and most modern industry in Europe in its sector: with 525 employees and 8,000 angora breeding farms. In 1944, despite the destruction of the establishment, the company was able to successfully overcome the crisis of war. Mario used effective propaganda to diffuse the breeding of the Angora rabbit, so as to increase the number of Italian farmers in the early fifties to about 20,000. He formulated the City of Angora project, a production efficiency model based on meeting the needs of the workers. From a simple place destined for production, the company, surrounded by the employees' homes, would become a self-sufficient community, organized and equipped with facilities such as a nursery school, afterschool, church, sports and leisure facilities. Although the project was only partially realised, it helped to strengthen the bonds between the company and its employees.

In 1953 the responsibility of the company passed into the hands of Lino Spagnoli, Mario's son, who strengthened and enhanced the patrimony that had been entrusted to him, by pushing heavily for innovation and the extension of the sales network. Lino Spagnoli was the author of the progressive development of the company's full potential and created the foundation of the company's present structure. He was able to diffuse a business culture that was attentive to strategic orientation, marketing, distribution and financial management. In fact, under his leadership, the production of the clothing line, which flanked the more traditional knitwear factory, was strengthened and the network of direct distribution throughout the national territory grew by more than 90 stores between 1965-1985. Decentralizing the production process through the creation of a large number of small subsidiary artisan businesses guaranteed the company's competitiveness and flexibility, thus spreading the culture of enterprise throughout the Umbrian territory and the implementation of stringent price containment which ensured the support of a more extended market sector.

In 1986, Nicoletta Spagnoli took the helm of the company. Following in her father's footsteps, she carried on a management process that has permitted the company to compete with the increasing challenges due to globalization of the markets and the entrance of aggressive competitors. Nicoletta Spagnoli gave life to a new line aimed also at a younger clientele, maintaining the quality-price ratio and paying particular attention to the total look which is rooted in the search for, and use of, all the accessories that complete an outfit, and always responds to the standards of good taste and quality. Today Nicoletta Spagnoli is the Managing Director and President of Luisa Spagnoli Spa. Moreover, Nicoletta Spagnoli has accelerated the development of the brand in the overseas market and has simultaneously focused her attention on the renovation of the outlets to render them consistent with the new brand image. To date, the company has 811 employees – 2/3 of them employed in stores, the rest are in Perugia employed in administration, production and logistics – that are 151 in Italy (146 directly operated stores and 5 factory outlets) and 53 abroad.

Table 13. Growth of turnover, EBITDA and net profits

k€	Luisa Spagnoli Spa					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Turover	136.087	133.840	132.587	134.277	127.209	124.806
EBITDA	35.916	37.835	33.403	26.960	19.666	20.927
Net profits	18.657	20.521	17.465	13.865	10.846	10.806

Source: Author's elaboration from company annual reports

Table 14. Luisa Spagnoli's stores abroad

Country	**Stores**		**Country**	**Stores**
Russia	17		Hungary	2
Azderbaijan	1		UK	1
Bielorussia	1		Bulgaria	1
Ucraina	2		Canada	1
Kazakhstan	2		Iran	3
Uzbekistan	1		Lebanon	2
Armenia	1		Saudi Arabia	1
Estonia	1		Bahrain	1
Albania	1		Kuwait	1
Bosnia-Erzegovina	1		Spain	1
Slovenia	1		Dubai	1
Malta	1		Germany	1
Romania	1		Polland	2
Czech Republic	1		South Africa	2
Slovakia	1		**Tot.**	**53**

Source: Company internal report

4.2.2 The store as key element of the internationalization process

In the early 70's Luisa Spagnoli had already had an important process of internationalization, with directly operated stores in the US, Canada, Germany, Holland, Japan. In addition to stores abroad, Luisa Spagnoli had a network of directly operated stores abroad, occupying a pioneering position in Italy in terms of direct distribution. In the 80's for a number of reasons, mainly related to serious health problems of the then President Lino Spagnoli, who had to pass the helm to the daughter Nicoletta, the company decided to close the stores abroad and to focus on the Italian market. Current operations in foreign markets are totally disconnected from the past experience of internationalization. To date, the weight of foreign markets turnover is approximately 10% (45% of this is done with the Russian market), which is a peculiar situation since for similar companies foreign weighs much more, but Luisa Spagnoli is trying to catch up aware of the great opportunities that foreign markets offer.

The company began to operate in foreign markets in 2005, starting from Russia through an Italian distributor that coordinates local operators who want to open stores Luisa Spagnoli through franchising agreements. In Russia and the former Soviet republics to date there are 26 flagship stores, with the addition of a network of multi-brand outlets that deal with the brand Luisa Spanish, coordinated by the same Italian distributor. Some of the flagship stores are the result of the conversion of multi-brand outlets. In addition to Russia, the company is concentrating in other parts of the world, such as Eastern Europe, with local partners. Foreign operations are then handled entirely through local partners through a "retail distribution agreement", which is different in legal terms from a franchising agreement. The contract provides direct control of the performance of the store, the definition with the partner of sales targets, the mark-up that varies depending on the market. The contracts have an initial term of five years. Luisa Spagnoli relies on local partners because the company is not yet able to create and manage decentralized offices with local staff in many countries: this is perceived as the main difficulty for the company. Recently a new project in Poland has started, which includes the opening of two directly operated stores, then returning to what was the prevalent corporate culture in the 70's. This project is line with a reorientation of the company to direct entry in high potential markets, also thanks to new managers with experiences of internationalization in other companies.

The company has set up a branch in Warsaw where two pilot stores will be opened in two shopping centres. The model of Poland will help the company to acquire the expertise to replicate it in other strategic markets.

The point is that until a few years ago the company has seized opportunities through foreign partners who "*were knocking on the door*" and proposed location to open stores. In other words there wasn't a real strategy of retail internationalization developed within the company. A case in this regard is represented by Russia, as it was a third party to come in the company and propose to enter into Russia: the interest toward this market was driven by the arrival of an opportunity from a potential partner. This type of phenomenon has happened several times because Luisa Spagnoli has a strong brand identity and is very well-known given the high number of stores in Italy, resulting interesting for foreign partners.

Only recently, starting with the project in Poland, the company has decided to give a direct impulse to the development in foreign markets, with a plan in five years to double the number of stores abroad to come to have about 100 stores by 2019. In addition to the operations in Poland, Russia and neighbouring countries, next target is the Middle East, where the company has already developed a massive presence with local partners, even in atypical areas such as Iran. Next target countries are Qatar, a further penetration in Saudi Arabia and Dubai there are already Luisa Spagnoli stores in franchising. The company also plans to replace some non-performing partners, as in Lebanon. As for Western Europe, three years ago a store was opened in London in franchising. Luisa Spagnoli plans to open a store directly, being a London important not only for Europe and Anglo-Saxon countries, but also for the Middle East and Russia. It 'a major challenge because the costs in London are very high, but the operation is considered strategic because "*we cannot sub-contract our image in these territories*".

In Western Europe the company doesn't have a significant presence, with the exceptions of a store in Berlin on a central luxury street with a local partner, one store in Spain in Puerto Banus, near Malaga, which is a prestigious location considered the "Spanish Montecarlo". The expansion in Germany is expected to continue with the development of a direct branch, to be able to then enter into

Austria and Switzerland. France, which is an interesting market but is experiencing a major crisis in consumption, is not taken into account at the moment.

To date, Luisa Sagnoli is not present in Asia. The attitude is very cautious. As for China, the key point for success is not so much the quality of the product, which in any case there must be and must be high, but it is the identification of a local partner, because "*you cannot think of going to China directly but it is crucial to find a good local partner. Only after a few years you can think of opening direct sales outlets, at the beginning you need a partner whit specific requirements, that is a good investment capacity and the ability to incorporate cultural characteristics of our brand and be able to then communicate it to the Chinese market in order to maintain consistent our image*". The company has not yet found a partner like this and the attitude is cautious, given the negative experiences of some competitors, with very aggressive partners that promise strong growth early but not a balanced development in the long run. At the moment, Luisa Spagnoli is developing contacts with Chinese institutions, such as the Embassy, in an effort to mitigate the risk. Other difficulties with the Chinese partners are: control over their actions; the fact that many distributors have also production facilities so the risk of imitation is high. For these reasons, Luisa Spagnoli prefers to wait before transferring the know-how to a local partner. On the contrary, with the Russian partner control is absolute: it is an Italian retail distributor with its own structure in Russia that controls stores both in terms of economic performance and in terms of image of the store (visual merchandising, local staff etc.). Luisa Spagnoli is even planning to organize, in collaboration with the partner, training courses for Russian personnel. In addition, in Russia there aren't many manufacturers so the risk of imitation is low.

Another key market is Japan, where there is the project to form a joint venture with a local partner. The South Korea follows Japan. Entry into the Japanese market will imply the opening of stores in department stores, which are prevalent in Japan and are at the level of the great American department stores. Recently, the company had the chance to explore unexpected territories, such as South Africa which is a growing country very fashion-conscious. They have a local partner with which they opened in October a shop in a department store in Cape Town, close to the harbour where the cruise ships arrive to intercept even international customers, and they have opened another shop in a department store in Johannesburg, aimed primarily at the local elite clientele.

Finally, the American market is particularly complex. The first pilot store will be directly opened in 2016 in California. The market is very complex in terms of heterogeneity, distribution dynamics, relationships with distributors, particularly department stores that have very aggressive policies, while offering visibility and large inflows. Luisa Spagnoli is planning to set up a subsidiary to directly manage the market presence through stores in shopping malls, for example, those of the Group Simon. The project must be set in the long run, because of the substantial investment for the establishment of a facility on site and for communication.

If the partner is not to arriving, the partners must be sought: here come into play prior experience of management, personal contacts network and the network of existing business relationships. For example, in Turkey where Luisa Spagnoli is in contact with the largest local department store, Beymen thanks to previous experience of the management of Luisa Spagnoli. A small team of 4 people in Perugia is in charge of taking care of relationships with partners.

According to the interviewees, opening stores abroad is quite easy: the problem is to run them, especially if operated by partners, both from the economic point of view and in the management of brand image. In this sense, the company and the partners must be integrated to better define the sell-in, sell-out, management of local personnel and visual merchandising: "*until now we have managed to do this with our partners, as demonstrated by the fact that many stores now have a history of years thanks to the periodic renewal of the contracts*".

Finally, the size of the stores tends to be replicated around the world with an area of about 150 square meters, with few exceptions such as Riad, where there is a flagship store of almost 300 square meters. In Italy, stores are located in historical buildings in city centres.

The company follows the typical planned model, with two collections a year: spring-summer and autumn-winter. There is only one pre-collection of knitwear that is sold in the stores before the main collections. Each collection includes about 400 models, each model with different colors. The product does not require substantial adjustments for foreign markets (with the exception of technical adaptations such as the length of skirts and pants for the Asian markets), this is because consumer tastes seem similar products since best-selling products tend to be the same in all countries. The collection is then so vast, including clothing and accessories with the exception of shoes, which can meet the needs of multiple markets. The brand extension has gone up to perfumes, produced by a subcontractor and sold exclusively in flagship stores. The company in fact prefer not to have license agreements, which is why they are not facing the world of eyewear and footwear.

For Italian stores, the company directly determines the assortment. For foreign stores, sales campaigns are organized for partners lasting a month and a half each season at the showroom in Milan. Normally assortments in Italy and abroad are the same, then the partner defines the details or may make changes, such as the exclusion of colours or items that may not be good for the foreign market. Orders are then accumulated and production begins, outsourced to sub-contractors. To date 40% of the production is made in Italy, 30% takes place in Eastern Europe, especially in Romania for knitwear, denim is produced in North Africa, especially in Tunisia, the embroidery in India, and other types of products are made in China. The tendency is to return to Italy, mainly because of quality control, which is done internally: "*often when products return from abroad, you have to do lots of work to bring them to our quality standard, thus saving on production costs in reality is offset by the need to do further work to restore the quality of the product. The only exception is Romania, where the quality levels for knitwear are very high, and our suppliers are also involved in the process of product innovation*". Most relationships with suppliers in Italy and abroad are stable. There have also been cases in which local suppliers have become distribution partners for the foreign market: an example is Romania. Italian suppliers are both in Perugia, where there are small companies closely linked to the territory that form a local fashion cluster with laboratories specialized in various stages of the production process, and in other parts of Italy as Puglia, Veneto, Emilia Romagna. The activities done internally are: administration, purchasing, production planning, quality control, financial control, creative process and design, information technologies connected to the stores in order to have real-time information and manage both the assortment and exchanges between stores. For foreign stores, there is a support from the headquarter for the visual merchandising. In mid-season, the interface between stores and headquarter is critical to maintain the brand image and communication constant and consistent for all countries.

4.3 The case of Stefano Ricci

"Search for excellence in men's style. perfect manufacturing, superior materials, exclusive designs."

Stefano Ricci is a company and a brand founded in 1972 by a Florentine designer, Stefano Ricci, and his wife Claudia. The company produces and sells luxury men clothing and accessories 100% Made in Italy with an exclusive positioning. Stefano Ricci represents an interesting case for two reasons: the rapid growth, in terms of turnover, profits and number of employees, experienced by the company in the last 10 years that has led the company to be a leading global player in the niche of extreme luxury; the internationalization from the beginning carried out through stores opening all over the world.

In next paragraphs we provide a description of the company history and profile; the internationalization process characterized by the opening of directly operated stores (DOS) and third party operated stores (TPOS)[19]; the experience of Stefano Ricci in Russia, that is considered, together with China and the USA, the most important market for the company.

4.3.1 Company profile

Stefano Ricci was founded in Florence in 1972 by a Florentine entrepreneur and his wife, and its target is a high-ranking male customer to which offer a full range of products entirely handmade in Italy with valuable raw materials. The activities of the company started with a collection of ties made with precious materials. In 1974, after the participation in the trade show Pitti Uomo, Stefano Ricci, on demand of international customers, developed a collection of shirts, matching the collection of ties: this was a significant change for the company, which positioned its offerings on a segment of the textile and clothing market very different from the usual ones where usually the price of the products could not exceed a certain limit. The results of the

[19] The abbreviations DOS and TPOS are used by the company itself to identify the type of store. TPOS are based on a license agreement with local partners that includes some aspects of the traditional franchising agreement but also includes a high degree of control by the company on the work of local partners in order to preserve the brand identity.

period were beyond expectations, and it was necessary to organize, in a short time, a continued production activity, although initially small: the company Fontebuoni (production of shirts) was founded, fully controlled, through which it became possible to strengthen the product line in the luxury segment, addressed to customers representative of the most affluent upper class in business and politics.

The history of the company coincides with its international vocation and its development in foreign markets primarily through the sale of its products in prestigious multi-brand stores first, then through the opening of sales outlets, which now account for the main business of the company, which plans to continue with its strategy of stores opening abroad, together with a strategy of business diversification. Stefano Ricci has entered the field of fine furnishing fabrics, especially after the acquisition in 2010 of Antico Setificio Fiorentino, acquisition also aimed at preserving the ancient art of silk processing[20]. Silk was introduced to Italy approximately in the year 1110 by catholic missionaries working in China or as legend tells, by an Oriental princess bride who brought not only the magnificent silk as part of her dowry, but also the silk worm. In Florence, the art of silk weaving found its natural home and flourished in the Fourteenth century bringing prestige to the city and wealth to its merchants. The silk woven in Florence reached its peak during the heir of the Medici. From the Renaissance age onward, silk was the source of wealth and importance for many noble Florentine families including the Rucellai who with the discovery of the "crimson" color made the fortune of their family and the city of Florence. Around the middle of the 18th century some of the noble families, including della Gherardesca, Pucci, Bartolozzi, Corsini and Agresti, decided to establish a single workshop that would regroup all their looms, patterns and fabrics previously located in their individual residences. This establishment was located in Via de' Tessitori (Weavers Street). The silks produced were designated to be used in periodical supplies for halls and chapels of the founders families, palaces, castles and for wedding trousseaux and special occasions. In recognition of the importance of this factory and to increase silk production, in 1780 the Grand Duke Leopold of Lorraine donated several looms, still working today. From that period on,

[20] In general, Stefano Ricci is very committed to preserving the old masteries and ancient craftsmanship, as well as art in its various forms.

the fabrics of the Antico Setificio Fiorentino (Antique Florentine Silk mill) as it is called today, decorated the most prestigious homes and museums throughout Europe. In 1786 the Antico Setificio Fiorentino was transferred to its actual location, remaining in the historic area of San Frediano. In the middle of the fifties, Antico Setificio Fiorentino has flourished thanks to the acquisition by Marquis Emilio Pucci and the other founding families of the shareholding majority, a takeover which enabled the company to manufacture textiles to furnish stately homes of Italian and international nobility.

In 2010, the acquisition of the Antico Setificio Fiorentino by Stefano Ricci, assured its future and the continuation of this remarkable handcraft tradition under the direction of Florentine hands. This acquisition together with the launch of the Stefano Ricci Royal Suite Collection brought the work of the Antico Setificio Fiorentino to the attention of the international elite, the fashion world and encouraged a renewed interest in the historical "atelier". Passed on through generation of families, the antique fabric designs are kept today in the Archive of the Antico Setificio Fiorentino. Currently the production includes a wide range of Renaissance silk damasks, brocades in silk and linen from various centuries. All these are woven on looms dating from the Eighteenth century and are destined for both modern as well as historic furnishing. The quality of the fabrics is guaranteed by the various delicate phases of workmanship: the hand dying, the preparation of the antique looms, the absolute lack of chemical treatments that allows the use of a completely pure undamaged thread and, finally, the lengthy weaving process on looms dating from the Eighteenth and Nineteenth century. All this results in resistance, texture and richness in colour. The raw material plays an essential role. The yarns are specially prepared for the Antico Setificio Fiorentino, and cannot be used on modern looms. The Antico Setificio Fiorentino uses a unique orditoio (warping machine), designed by Leonardo da Vinci and a 1878 Benninger orditoio which is still in perfect working order today.

Continuing along the path of diversification, in 2012, the company has started a collaboration with a producer of yacht (the Group Azimut Benetti) to create the interiors of luxury yachts.

In 2001 Stefano Ricci became the holding of a group of firms totally or partially controlled.

Table 15. Controlled companies

Name of the company	**Place**	**%**
Italian controlled companies		
Stefano Ricci Stores S.r.l.	Florence	100
Antico Setificio Fiorentino S.r.l.	Florence	100
Fatto in Italia S.r.l.	Potenza	100
Controlled companies abroad		
S.a.m. Luxury Montecarlo	Monaco	99,98
Stefano Ricci France S.a.r.l.	Paris	99,99
Luxury SM Sa	St.Moritz	100
Stefano Ricci America, Inc.	New York	100
Luxury & Company of Beverly hills, Inc.	Los Angeles	100
Luxury Lifestyle Trading India Private Ltd.	Mumbai	99,14
Stefano Ricci (Shanghai) Trading Co.Ltd.	Shanghai	85
Luxury Macau Co. Ltd.	Macau	80

Source: Company's annual report

The president of the Chinese company is a local partner who holds 15% of shares. Much of the success of Stefano Ricci in Shanghai and the Chinese market is due to the relationships of the Chinese partner with local actors and institutions.

The prevailing culture of Stefano Ricci is "Made in Italy": the entire production is carried out in Italy and for some product the entire production cycle takes place within the confines of the province of Florence. In particular, 60% of the production is done internally, the remaining 40% is outsourced to workshops in Italy, about 20, directly monitored by the company. The creative process takes place entirely inside the head quarter of Florence, by its founder, his son, and some designers and experts for each product category, which were necessary since the company began its process of growth: in a few years, in fact employees of the Group increased from 40 to 300, and the company felt the need to rely, for some functions such as personnel management, to external partners. The marketing function, whose core business is retail and communication, however, remains in the hands of the family, in particular the founder and his sons, supported by a commercial office. The processing of some products is outsourced to market leader suppliers, with contracts in the medium/long term (typically 4 or 5 years), and the suppliers must respect the quality standards imposed by the company. All the garments are shipped to the site in Florence where the quality control takes place, and they are re-checked, packaged and shipped to individual stores or customers. The company delivers its suppliers not only designs and models, but also the raw materials and fabrics. An example of outsourcing are the coats, which are made in Fano, a town in the Marche region, while the rest of the products are made in the province of Florence, in Emilia Romagna and Basilicata regions. The entire production of fine leather footwear takes place in Florence, as well as the realization of the ties and shirts. Relationships with suppliers are very stable and strategic, due to the required quality standards. Often the growth of suppliers has gone hand in hand with the growth of Stefano Ricci, thus reinforcing the relationship between companies. Although the high level of trust, Stefano Ricci doesn’t have unique suppliers for individual products or processes in order not to be overly dependent on a single supplier. At the current stage, the company is considering to acquire minority or majority shares in strategic suppliers to ensure greater control and stability in the supply processes. Requests from the stores, especially related to customization, have implied a shift from external supply to internalization of activities by setting up a tailoring workshop of 18 people who respond quickly to the demands of stores around the world. The trend in general is to internalize as much as possible the production from now to the coming years. The link between the product, brand and territory is so strong and clear that the company has gone from the label “Made in Italy” to the label, strictly used in Italian language, “Fatto in Italia” or “Fatto a mano (handmade) in Italia” and, for some products, the label “Made in Florence”.

The strategies pursued by the company have proven to be successful. From 2008 to 2013, the growth of the turnover (96% is done in foreign markets) is approximately 284%, together with EBITDA (+430%) and net profits (+378%). To date, the company has 362 employees working in the Florentine headquarters and in directly operated stores.

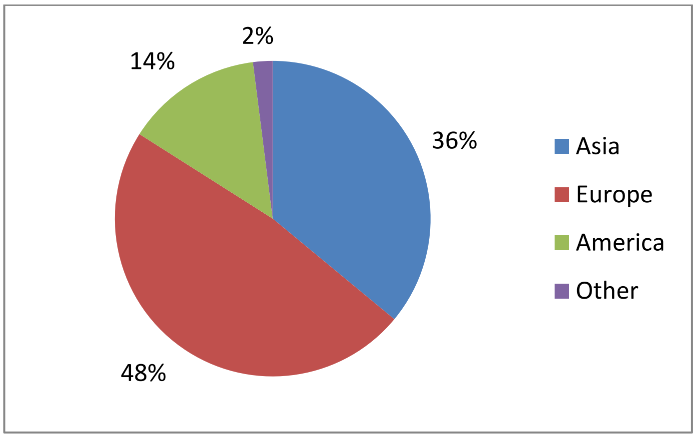
Table 16. Growth of turnover, EBITDA and net profits

	Stefano Ricci					
	2008	2009	2010	2011	2012	2013
Turnover	34.626	34.215	46.661	57.122	88.729	133.032
EBITDA	6.303	5.932	8.066	11.162	21.082	33.415
Net Profits	4.004	2.465	4.762	6.095	11.955	19.148

* the data refers to the Group turnover, k€

Source: author’s elaboration from Company consolidated financial statements

Fig. 13: Turnover by world regions



Source: Author’s elaboration from company annual report

4.3.2 Internationalization and stores opening

During the years, Stefano Ricci has tried to develop its market penetration through three main channels: the multi-brand stores (exclusive agreements with historic shops, located in prestigious locations with international and loyal customers), the flagship stores, owned by the company (DOS) or licensed (TPOS), the department stores (Neiman Marcus, Bergdorf Goodman and Harrods). Through the opening of flagship stores, that is the strategy that the company is currently implementing, which consist in coming into direct contact with the final customer, offering also a customized product; improve the image of the product through a professional sales service; recover the margin that is assigned to the retailer; improve visibility and the luxury image of the product. The opening of new stores is the main driver of growth, as well as the objective characterizing future strategies.

During the ‘80, Stefano Ricci entered the U.S. market by opening a small showroom in New York, becoming the object of interest of e set of clients which included politicians and financiers, intellectuals and writers. In the early 90s, and parallel to the growth of production, the company decided to undertake retail operations, opening flagship stores directly controlled: this choice reflected the need to gain greater visibility and a stronger presence in the market, in order to establish the brand in the world and build an image of absolute elegance and good taste in clothes. The first flagship store was opened in Shanghai, China in 1993. In 1994 the presence on the North American market was further strengthened by the transfer of the showroom in New York’s prestigious Fifth Avenue in Rockefeller Center. In 1998, the range of products offered was extended to jackets and suits, produced by highly qualified external subcontractors, located in various regions in Italy, which had to respect strict production standards.

In 2000 a new boutique in Monte Carlo was opened, in 2001 a flagship store was opened on Rodeo Drive in Beverly Hills. Parallel with the constant growth of the brand in Asian countries, the second Chinese boutique was opened in 2002 in Beijing, inside the St. Regis Hotel, which is followed by the first licensed shop in the city of Cheng Du. Other boutiques opened in that period were in Porto Cervo, Italy, in one of the most exclusive resort of Costa Smeralda, and in Xi An, which was the third owned flagship store in China. In the same period, a rented space inside the Hotel Principe di Savoia in Milan became the showroom that hosted all customers during sales campaigns. In 2005 the three-floor store in New York’s Park Avenue became the flagship of the Group. In the same year, the fourth owned store was opened in China in Hangzhou. It was also granted to two local partners the right to open licensed flagship stores in Moscow on the prestigious Bolshaya Dmitovka, and in Paris, on Avenues des Champs-Elysees. In 2006, the turnover exceeded € 23 million, thanks to the steady increase in sales at Neiman Marcus, the most prestigious department stores in the U.S., with whom Stefano Ricci opened, in 2006, two shop-in-shop in Bal Harbour (Miami) and Tyson (Washington).

At the end of 2011, the flagship stores in the world were 21, counting both those owned and licensed (approximately, the remaining 43.5% of the turnover of the company is routed to the third channel of distribution, the multi-brand customers). In 2012, a new owned boutique was inaugurated in Beverly Hills, located at 270 North Rodeo Drive, managed by the subsidiary Luxury & Co. of Beverly Hills; it was also opened a new boutique in Paris at 34 Avenue Georges V, managed by the subsidiary Stefano Ricci France S.a.r.l, and a prestigious flagship store in Saint Moritz; a new licensed shop was opened in Ankara. During the same year, license contracts were signed for the opening of new boutiques in Vienna, Abu Dhabi and Shenyang (China). In 2013, other important stores opening including St. Petersburg, Geneve, Dubai and Mumbai, Moscow, Beijing and Macao. At the end of 2013 Stefano Ricci had 37 flagship stores and 9 shop-in-shop in many prestigious international locations, and numerous multi-brand customers, which however represent a much smaller percentage of the total turnover.

In 2013 the shops of Stefano Ricci were the following:

- ✓ DOS (18) EUROPE: Florence, Milan, Porto Cervo, Paris, Monte Carlo, St. Moritz; ASIA: Beijing (2), Macau (2), Shanghai (3), Xi'an (2), Ningbo, Mumbai; USA: New York, Beverly Hills.
- ✓ TPOS (21) EUROPE: Zurich, Vienna, Kiev, Moscow (2), Ankara , Ekaterinburg, Saint Petersburg (2); ASIA: Yerevan, Baku (2), Chengdu, Seoul, Singapore, Shenyang, Jakarta; MIDDLE-EAST: Abu Dhabi, Doha, Dubai.
- ✓ SHOP-IN-SHOPS (9) USA: Neiman Marcus (Tyson's, Las Vegas, Houston, Bal Harbour, King of Prussia, Northbrook, Michigan Avenue, Scottsdale); EUROPE: Harrods (London).

DOS and TPOS generate 77% of turnover in 2013.

In 2014 the growth of the firm has been rapid and consistent, with openings, among other, in Istanbul, Shanghai and a flagship store in Milan. Stefano Ricci has now 42 stores all over the world. The weight of investment on stores on the total turnover, in 2014, is between 8% and 10% of turnover, which includes stores (renewed and new openings) and investment in production. A new building (1500 square meters) has been acquired to expand the production of leather goods, in order to meet the demands of stores in terms of quantity, quality and delivery time.

Stores opening occur in three ways: opportunities from third parties; conversion of multi-brand stores; business decisions within the company. The decisions to open a store often arrive from third parties (brokers, real estate agents, foreign distributors) that directly contact Stefano Ricci, given the reputation of the brand, thus generating investment opportunities in a specific country. A second way relates to some multi-brand stores that convert to single-brand (this is the easiest way because there is already a business partner and employees who know the product, are loyal and have a loyal customer base; his has happened in Kiev, Zurich and Vienna). The third option is the selection, by the entrepreneur and the management of the company, of key markets, and specific cities, considered strategic for the international development of the company, where to go directly and activate a network of personal and business relationships (mainly among customers of Stefano Ricci) in order to get to the right location. The aim is to find a good balance between location in the main streets, such as Bond Street in London, which have greater visibility but often higher costs and lower dimensions, and so-called "side-streets", which allow to find spaces of larger dimensions in order to replicate the retail format used by Stefano Ricci and replicated in most locations, namely the flagship store. The cultural differences are not perceived as relevant either for the choice of the market, or for the possible adaptation of the product. The collection is so vast (the investment in the sample is equal to about 1.5-2% of sales) that can meet the needs of multiple markets; if there are local partners, these serve as a filter to manage possible cultural differences that are not perceived as an obstacle at all.

The company recognizes the strategic role of the partner to enter the market, especially in emerging markets. Once consolidated its presence in the market, however, the project of Stefano Ricci is to reacquire the licensed stores to recover profitability and to have greater control over the development of the brand. The process of finding a partner takes place in the sense that potential partners are "knocking on the door", given the acquired brand reputation in the luxury segment. In this sense, the company has a strong bargaining position in comparison of its partners. Only in rare cases, such as Russia or China, the search for partners started by the company because they were among the first markets in which it entered when it was still a small company growth and brand awareness was low .

4.3.3 The experience of Stefano Ricci in Russia

Worldwide spending in luxury product rose by 13% in 2010 and 10% in 2011 led by emerging markets exceeding the previous results recorded before financial market collapsed. Half of luxury goods sales are made to customers in emerging markets led by China (approximately 30% of the global luxury sales); India and Russia also have a steady boost in demand for luxury (PriceWaterHouse&Coopers 2012). These emerging markets have protected the luxury sector from the global economic crisis, since they have not been hit as hard as the industrialized countries. The recent financial crises of 2008 revealed that luxury industry is not immune to crisis: in the past, the most important markets for luxury brands, which originate mainly from Italy and France, were USA and Japan that have been hit substantially by the crisis. The country that is actually turning around the crisis for luxury goods is China: the Chinese luxury consumers want outwardly visible and status-driven branded products and, after a long period of restriction, there is an urgent need to experience and own all the "good things in life" (Sivakumar, 2012). Reversing the trend of recent years, the Americas region are estimated to grow at 4% in 2013 versus 2012, surpassing the estimated 2.5% growth rate for China, as luxury spending in that country moderates.

A steady pace of stores opening in second-tier cities in the U.S. interior has fueled sales growth in the U.S. An additional factor driving the growth in the Americas is luxury spending by the increasing number of Chinese and Russian now visiting in western cities in the U.S. such as Las Vegas and Los Angeles. Overall worldwide, luxury goods spending will grow by 2% to €217 billion at current exchange rates over 2013. In the long run, Italian brands have gained the largest market share of luxury sales, moving from 21% in 1995 to 24% today, nearly equaling French brands' share of 25%[21].

[21] Data from the 2013 Luxury Goods Worldwide Market Study, presented by Bain&Company in collaboration with Altagamma, the Italian luxury goods manufacturers industry foundation.

Russia has wealth, knowledge, and experience in luxury, with Moscow and St. Petersburg that are the cities with higher potential for luxury consumption. This country is one of the most important for the luxury brands, especially those from France and Italy: the price factor doesn't seem to exist, and the higher the price of a product, the more attractive the product is for a part of the luxury consumer, because it means that it is more luxurious. In the fashion and luxury industry, Italy has a special position in Russia. Russia's predilection for Made in Italy has generated 5,5 billion euro in sales for 2012 (excluding sales to Russians abroad), a 9% increase compared to the previous year, according to data by SMI Sistema Moda Italy. Cities including St Petersburg have witnessed an increase in new luxury stores opening, including the DLT Department Store (owned by Moscow-based Tsum) as well as several other mono-brand street level openings. The second and third cities in Russia with the most developed luxury market are St Petersburg and Ekaterinburg, where the majority of international top luxury brands are present with mono-brand stores. To illustrate the potential of the Russian luxury market, an increasing number of major luxury brands are switching from franchising operations to directly operated stores. Italian exports continue to grow in Russia. According to data from ISTAT, in2013 the export of Italy towards Russia has registered an increase of 8% In 2014 there has been an overall decline in the interchange Italy-Russia, partly due to the crisis in Ukraine and partly due to the economic slowdown and the depreciation of the ruble, of about 17% (ISTAT report updated to April 2014) with Italian exports fell by 6.6%. In the last few years there has been a phenomenon of revival of Italian brands in the Russian market after the crisis in 2008. Italian fashion brands have opened stores in Moscow and St. Petersburg, but also in large and middle cities as Ekaterinburg, Novosibirsk, and Omsk[22].

The importance of Russia for luxury brands and products can be related to the factors that explain luxury consumption of Russian consumers. As the country opened to the rest of the world in the early '90s becoming an emerging market economy, in the last decade there has been a boom in consumerism; one indication of the improving standard of living was the increase in retail sales. Consumption became the new purpose of economic activity, especially status consumption (expensive clothes and

[22] Data from www.ice.gov.it

cars, expensive repair and building, elite clubs, special household services), since Russians generally like to show off (Karpova et al., 2007). There is a psychological habit of consumption in Russia, which can also be clearly seen in the luxury market. Recent research on perception of luxury and consumer behavior in Russia has shown positive relationships between purchasing of luxury goods and the need of uniqueness, symbolic/status consumption and identity, that indicate that most of Russian people want to avoid similarity, but, at the same time, they want to possess the status symbols that symbolise personal and social identity (social, emotional and existential values) (Kaufmann et al., 2012). Another distinctive feature of the Russian consumer is the predilection for European products, that are associated with attributes such as high quality, original design and variety of assortment, which is why many Russian producers use foreign words and names to attract consumers. Research on consumer ethnocentrism confirmed that Russians consider domestic goods as inferior to imports and evaluate Western products more positively than national products (Ettenson, 1993; Klein et al., 2006).

The presence of Stefano Ricci in Russia began in 2005 with the opening of the first store in Moscow. According to the CEO "*in Russia and CIS countries, the only way to operate is through a local partner*" because of the difficulties and the peculiarity of these markets, mainly related to culture, customs, laws and regulations. The decision to enter the Russian market dated back a few years ago: Stefano Ricci wanted to open a flagship store in a prestigious location with a high emotional impact: it was a period when the firm was opening boutiques all over the world, but it was difficult to find the right partner in Russia. They found the largest Russian distributor in fashion that wanted to open a store Stefano Ricci, but it would have been a shop-in-shop inside his department store in Moscow. The location wasn't the right one for one main reason: the competitors of Stefano Ricci had all shops with windows on the street, while the company was offered a 100 mq space on the inside of the department store, with no visibility from the street. The right location wasn't the only need of the firm, which also wanted to find the right partner to manage the shop not only from the accounting point of view, but also the public relations with customers, that are usually prominent persons in politics, finance and business. The CEO of Stefano Ricci met a Russian businessman in Monte Carlo many years ago, who wanted to work with the Italian firm but at that time he was involved in other important growing businesses. The company decided to reject the offer of the distributor and wait for the partner[23]. For two years after Stefano Ricci continued to look for the right location and to study the Russian market. The first flagship store was opened in 2005 in Moscow, on Bolshaya Dimitrovka, one of the main shopping street that has a great advantage: it is accessible by car, and this characteristic is fundamental for the Russian customer "*who doesn't like walking and prefers reaching the shop by car, accompanied by the driver*". The flagship store is licensed and the choice of waiting for the right partner and the right location has proved to be successful: the boutique has seen immediate positive results and it has dragged the neighboring markets.

Currently, Russia and the former Russian republic (mainly Armenia, Azerbaijan, Ukraine, Kazakhstan and Turkmenistan) represent the 30% of the company turnover, and the Russian market (together with China) has protected the firm, and the whole luxury industry, from the global economic crisis, as outlined in the previous paragraph. One more reason is the payment system in Russia: 50% in advance, 50% at delivery, completely different from the traditional payment system of the textile and apparel industry, up to 60, 90, 120, even 180 days. Stefano Ricci uses this system as a way to self-finance the openings of new stores in the world. Moreover, Russians have a great will to buy and satisfy their desires, and this will derives from the years of oppression and poverty experienced in their childhood. There are also aspects of the everyday life that have a connection with shopping habits: Russia is the most important target market for the footwear industry. Men and women can buy an average of 15-20 pairs of shoes per season apiece, also because of a practical reason: the acid used to melt the ice erodes the shoes, so there is a great need to buy them: "*these are the typical things that you learn about the culture and habits after you go there many times, speak to your partner and know your customers*".

[23] Un altro interessante caso di difficoltà nel trovare il giusto partner è quello dell'India. Lì non è stato possibile trovare un partner affidabile. Questo ha costretto l'azienda ad aprire direttamente, ma si è dovuta scontrare con notevoli problematiche di tipo burocratico che hanno ritardato di mesi l'apertura del punto vendita. L'azienda ha comunque nominato come CEO della società in India un businessman indiano, già cliente di Stefano Ricci, che nei mesi successivi all'apertura ha contribuito a gestire le problematiche, di natura principalmente burocratica e amministrativa, legate al mercato indiano. L'azienda, alla luce di questa esperienza, riconosce il ruolo strategico del partner soprattutto nei mercati emergenti.

In its experience, Stefano Ricci has found difficulties in approaching the Russian market due to different reasons that can be related to the cultural differences between the two countries. The first difficulty has emerged in the interaction with the Russian partner during the negotiation to come up to a deal on a contract. Every point of negotiation is a conflict because "*the Russians always want to be right and follow an approach I win, you lose*. *This is a matter of culture and it's not related to specific aspects of the negotiation, that is usually long and tiring, up to 4-5 hours for a single contract*". Following the point of view of the top decision-makers of Stefano Ricci, the typical Italian attitude, more relaxed and friendly, can be successful in the negotiation process in softening the counterpart. The Stefano Ricci partner in Moscow had an exclusive contract for the first five years, then after these five years he had the opportunity to open a store a year in other cities in Russia, or to keep Moscow and suburbs. The partner decided to keep the flagship store in Moscow so the company had the opportunity to open other stores with different partners in St. Petersburg and Ekaterinburg. Stefano Ricci had also 6 multi-brand in Russia, which have been converted in mono-brand (not only in Russia, but also in other places like Vienna, Zurich, Turkey): "*it's a common process in which the multi-brand must choose the main brand and focus on it, if the company gives the license*".

Stefano Ricci has hired 4 Russian girls to better manage the Russian consumer in the stores of Milan, Florence and Saint-Moritz, while there isn't a specific training for suppliers that comes all from Italy. According to the CEO, Italian supplier are "*the best that can ensure that the wishes of the Russians are satisfied, because of the great quality and creativity of their work*". The Russian consumer often buy very expensive things that do not meet a specific need but simply the desire for a moment. Following the experience of the Stefano Ricci top management, this behavior is typical of Russians not only in their homeland but all over the word, because"*a high percentage of shopping is done by Russians in Dubai, Paris, London, New York, Milano* etc.". This means that it is not a territorial concept but a consumer concept. Chinese consumer is quite the same, the Americans not anymore: they were the ones that made the differences in the 80's and 90's, now the economic crisis has contained this impulsive behavior. "*In this type of situations, for example when a Russian consumer can spend up to 160000 $ for a coat that is not in store at that moment, the* *group of Italian selected supplier are the best to give a quick response without compromising quality". The "Made in Italy" is so important in Russia that many Russian designers are producing in Italy just to say "Made in Italy". Russians love Italy in general, not only fashion, but also music, films, lifestyle, and Italian products characterized by quality and creativity. For this reasons we have a high rate of loyalty between Russian consumers.*"

It's interesting to understand the content of the license agreement, because it enhances even more the "Made in Italy" that is so important for the Russians. The licensee must create a shop entirely made in Italy by Stefano Ricci and its craftsmen: not only the concept of the store is defined by the Italian firm, but also the design, materials, floors, furniture and accessories, that are mainly made in Florence, shipped and assembled by the workers themselves who go to Russia to assemble the store. The licensee then has a minimum purchase seasonal. The training of the store manager, hired by the licensee, is done in Italy, and the store manager in turn trains the staff. One of the managers of Stefano Ricci goes regularly to Russia every 2-3 months to monitor the situation. The monitoring is done through visits, daily phone calls, e-mails: the aim of the daily monitoring is to see what are the top selling items and plan the supplying.

Another difficulty is represented by the logistics, which is entirely managed by the licensee. Stefano Ricci ships the products and the licensee does all the customs clearance procedures, that are very strict. A packing list is requested, which includes the composition of each piece, from clothes to bolts. In this highly regulated context, in which customs rules are very strict and "*you may also run into corruption or illegal practices*", the partner's role has been crucial in order to understand the rules and operate according to the law.

There has been a process of acculturation of the Russian consumer over the last 10 years: "*10 years ago Russians weren't elegant, they were all dressed in black, wearing gold watches and drinking whiskey at lunch. We have noticed that there has been an evlolution: now they are much more elegant, they wear suits made with fine fabrics, watches in white gold, they drink French and Italian wine*". This process of acculturation is due not only to the great amount of money Russians can spend, but also to the bond with Italy which has resulted in numerous trips to Capri, Forte dei

Marmi, Florence, in which they have observed and then absorbed the Italian style. According to the CEO, about the luxury consume "*Moscow has been the first to start this process of acculturation, in which the cultural distance has been reduced since the Russians have become very close to the Italian style and products. They also have a mental background very close to the Italian history of the 50s and 60s, so they are much more similar to Italians. The Chinese, for example, are a different world: the cultural distance is higher.*"

Thanks to the experience in the Russian market and the interaction with their first Russian partner in Moscow, the top decision makers of Stefano Ricci has learned the importance of learning the local approach to be professional and respectful with business partners in Russia, spending time with them, taking time away from other commitments to spend with them a day of work and an informal dinner, gratifying them. The quality of the time spent with the Russian partner is fundamental for the development of the relationship. Another lesson learned is the importance of coherency related to the brand. The Stefano Ricci has never done second lines, discounts or seasonal sales. This is the same all over the world, but in Russia it becomes an important and distinctive sign for the consumer: "*The brand and the price must always be at the highest level. For Russians is essential: they search for exclusivity, they want to have access to an exclusive club. A higher price means that the product is unique and exclusive. And Russians want to show everybody how much they can spend*".

4.4 The case of Montezemolo (Gruppo Sartoriale International srl)

"Being elegantly never out of place, in control of oneself and of ones wellbeing, without never having to explain why and how of ones choices. A perfect meeting between sartorial tradition and stylistic innovation."

Gruppo Sartoriale International Srl is a company founded in 1978 and located in the industrial district of Prato, in Tuscany. It's a family business led by Lorenzo Guazzini, son of the founder Renzo who still occupies a leading position in the enterprise being in charge of the creative department. The company sells total-look man with a medium-high market positioning, offering collections for business, leisure and ceremony, with the stated mission of "*dressing the men of the entire world with a unique image and elegance, with Italian style and passion*".

The Group is a small company which now has 26 employees and a turnover just below 5 million euros. The brand of the Group is Montezemolo, which now has 11 stores in Italy and one in Moscow: the presence in final markets through retail outlets is a feature that distinguishes Montezemolo from other companies located in the Prato district, that usually are focused primarily on the production of yarns and fabrics and, with rare exceptions, distant from markets finals. As for the other two cases, even for Montezemolo we outline the Company profile, the process of internationalization, with particular attention to the opening of outlets abroad, the internal and external organization of activities and upstream and downstream business relationships with the aim to represent the business network of the company. Given the peculiarities of the localization within the industrial district, we outline the characteristics and evolution of the Prato district in which the company operates and is embedded.

4.4.1 Company profile

Gruppo Sartoriale International was founded by Renzo Guazzini and started its adventure in 1978 with the creation of the first Montezemolo collection, which will then give the name to the label, with the intention of meeting all personal needs of its customers. It was already a line inspired from the principle of total look that had since the beginning the intent of completely dressing man from the shoes to the suit, and onto the completing accessory.

The début was placed in a historical moment when the concept of "Italian Haute Couture" was revived on industrial scale, also on the trail of the years of Italian neo-realism, made famous by the most authentic movies of De Sica, Risi and Monicelli, with stars with their truly Italian elegance like Alberto Sordi, Vittorio Gassman, Vittorio De Sica, Totò, Eduardo De Filippo that were a source of inspiration for the founder of the Group. Those were times when talking about image in menswear was pure avant-garde. Exactly those years in fact saw the dawn and the first signs of what was later going to be the the men's Italian style Made in Tuscany.

Since the beginning, Renzo Guazzini perceived the opportunity of having to be present on the market with one's own sales network and on the basis of this vision, which later proved to be far-seeing, from the mid-eighties he started opening monobrand outlets "Sartoria al Corso" that presented the Montezemolo collections. Soon the name of the stores was changed into Montezemolo to better communicate the identity of the brand. Each Store is the meeting point for clients with the Montezemolo style and is characterized by the research of the latest layout and visual merchandising trends, furnished with Italian style and an Anglo-Saxon spirit. The Montezemolo brand now is strategically positioned and present in the major capital cities, on the international growing markets through multibrand stores and in one monobrand store in Moscow. The stores in Italy are 11 (Prato, Florence, Pistoia, Lucca, Livorno, Forte dei Marmi, Cortina, Rome, Crotone, 2 stores in Milan), 8 of them are directly managed and 3 stores are in franchising.

Now the Group is managed by Lorenzo Guazzini who is continuing on the footprints of his father to develop the brands and the activities of the Group, giving continuity to the company tradition, with special push towards innovation and internationalization actuating strategies of further expansion in direct distribution and brand consolidation, landing projects on a national scale and creating partnerships with international groups. The connection with the local industrial district of Prato was clear when Lorenzo Guazzini became President of Young Industrialists in the Prato district, on the footsteps of his father.

The main characteristics of Montezemolo's products are the high quality of raw materials, the typically handicraft experience in the production stages, and the know-how connected to the tradition of the territory, which imply cooperation with selected suppliers, such as Loro Piana, Ermenegildo Zegna, Reda and Lanificio Cerruti for the supply of high quality facbrics. Montezemolo provides also a "Made to Measure" service through its own tailors in order to reach a high degree of customization, in particular for formal and wedding dresses for men.

Table 17. Evolution of Company's turnover and net profits

	Gruppo Sartoriale International					
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Turnover	4.073	3.749	4.228	4.827	4.894	4.369
EBITDA	358	332	308	303	288	261
Net profit	8	8	9	8	7	9

Source: Author's elaboration from Company's annual report, data in k€

4.4.2 The localization in the industrial district of Prato

The Group is localized in the industrial district of Prato, that is one of the areas in Central and Northeast Italy where centuries-old craft skills have successfully merged with modern industrial growth. The location in the district of Prato implies direct benefits for the company, in terms of ease of obtaining raw materials typical of the productions of the district, such as coat fabrics, linings, leather and metal accessories (available also in the area of Florence, Empoli, Scandicci, that has a strong tradition in the fashion and clothing); another direct benefit is the updating on innovations in the fabrics and raw other raw materials. There are also indirect benefits, namely the atmosphere of the industrial district linked to the tradition in textiles and clothing, which becomes a source of inspiration. In this sense, few words are worth to be spent on the industrial district of Prato and its evolution, since Montezemolo is embedded in the industrial district of Prato and its growth is closely linked to the district and to supply relationships with local operators.

Ever since the 12th century, the city of Prato has been famous for the manufacture of textiles and especially the production of woollen cloth, although it was only with the advent of industrialization and mechanization in the mid-19th century that the area developed a real and proper industrial production system. A significant contribution to industrial expansion was also due to the lower costs of carded wool processing, caused by the gradually increasing production of recovered wool obtained from shredding old clothes and industrial scraps (“combings”). Following the second world war, contrary to trends in other European textile manufacturing areas, the industries of Prato enjoyed such a boom in production that, by the early 1980s, the area was considered a model industrial district. During this period of development, Prato grew to become Europe’s most important textiles and fashion centre, and the most advanced example – or prototype – of that particular form of organization of production that is the industrial district. One feature of industrial districts, and of the Prato district as well, is the specialization and distribution of work among small business firms; this segmentation finds its recomposition in a “culturally and socially constituted” local market whose competitiveness is based more on the economic aspects of the area itself than on those of the single companies (Dei Ottati, 1996). The development of the textile industry in Prato saw the interlinking and overlapping of several different “models of competition” (in terms of organization, products and markets), in an evolutionary course that appears outwardly linear but was in fact marked by discontinuity, strategic shifts and complex readjustments. These “models of competition” were the result of adaptation to external conditions, but were also due to the ability of the system to generate entrepreneurial variability and innovation and, as a consequence, to provide new material for competitive selection and change.

Basically, up to World War II the Prato textile industry was divided in two production circuits: one based on large (large if compared to the size of other companies in Prato) vertically integrated companies with generally low-level standard productions (rugs, military blankets, etc.) made for export to the poorer markets (Africa, India, etc.); the other based on groups of firms carrying out subcontract work for the production of articles designed for the clothing markets.

Between the postwar period and the early 1950s, the outlets towards low-level standard production markets (India, Africa, etc.) rapidly disappeared, and the large vertically-organized companies quickly dissolved. The production system underwent a rapid evolution, and the result an original form of reorganization largely based on the widespread distribution of work among small-scale enterprises (the so-called “industrial district”). The two dynamic factors of the new system were: (a) the subcontracting firms, which carried out the actual production , and (b) the front-end firms, which were involved in product design, work organization and sales. The district-based model was compatible with many aspects of the previous production systems, but it was especially in line with the new profile assumed by the marketplace (Dei Ottati, 2009). The main business was still processing carded wool from recycled materials; however, a crucial innovation made carded wool more competitive and more suitable for the clothing industry’s requirements for lighter fabrics: the introduction of nylon, which could be spun into yarns having a much finer count and could be interwoven with wool as “backing”. This innovation helped to consolidate Prato’s position in its market segment (adding a wider range of patterns, colours, effects, etc.) and fuelled a rapid development that found fertile ground in the district in terms of: expertise, propensity for entrepreneurial risk-taking, availability of capital (also thanks to the local bank), a common language and a high degree of cooperation and mutual trust between all the parties involved.

The Prato district became thoroughly established during the 1970s. The emerging of fashion as a mass phenomenon, together with the higher salaries and the revolution in customs, marked a historical division in the clothing market (and not only), and the demand became more fragmented, differentiated, unsteady and seasonal. These variables disrupted the production and distribution chain forcing the structures to become more flexible, responsive and agile. The district was spurred to develop a “structural coupling” that resulted in its making a great leap forward. During that period the Prato district underwent a fundamental transformation, from a product-oriented, wool-processing district to a market-oriented, fashion/textile district. The re-orientation of its competitive identity in terms of “satisfied needs” cleared the way for a considerable increase in the variety of products and production technologies. Since then, the fashion world (the world leaders in prêt-a-porter, the garment makers for industrial brands, the large industrial retailers) would turn to Prato to find what other textile districts could not provide: constantly renewed collections of great variety and creativity and the ability to answer increasingly complex service requests. It is in this period that companies, such as Gruppo Sartoriale International, are founded, with a strong orientation to final markets and distribution of finished products.

The second half of the 1980s proved a difficult period. The district was forced to dispose of the excess of investments in carded wool made during the previous decades, since the market for those products was rapidly dwindling (Bellandi, 1996). During that period, 28% of the workers lost their jobs and 37% of the firms went out of business. The crisis would be absorbed by the local system in the 1990s, thanks to a strong tertiary (with the fast growth of business services) and especially to a shift towards productions of greater added value and to differentiation of supply (e.g. fleece, chenille, etc.). Hence, textiles remained the driving force of the Prato area all through the nineties. A comparison between 1991 and 2001 census data shows the importance that the textile industry continued to have in Prato's economy: the number of workers in the textile and clothing sector was 50,333 in 1991 and 48,098 in 2001. In the rest of Italy, textile districts included, the trend was sensibly worse (Unione Industriale Pratese, 2013).

In 2001, a combination of effects accelerated structural changes in the textile/clothing sector worldwide. On the economic level, the main elements of change were the fall in demand caused by a long period of stagnation/recession, which particularly hit the geographic markets (first of all Germany) and the market segments of reference (medium-to-high consumption); the abrupt fall of the US dollar against the euro; the stronger role of distribution networks and brand names, which favoured the concentration of operators, the international expansion of their range of action and the downstream shift of the processes that produced "value" and hence economic power in the supply chains; the increasing international integration of emerging economies with strong manufacturing capacities and lower factor costs; the interactions between the two preceding factors, which drove large retailers and garment makers to implement global-scale delocalization and seek out supply strategies that would offer any opportunity to cut down costs; and, at the same time, the delocalization strategies applied by textile operators, in seeking of lower cost factors and logistic proximity to the garment-making establishments. In this context, Prato's textile industry underwent a serious downsizing in terms of companies, workforce, turnover, exports and added value, with the firms trying to survive through competitive selection and repositioning (Dei Ottati, 2009).

The demand for labour in Prato and the employment opportunities created by the economic expansion that occurred during the post-war period could not be met by the local population alone. The area became a magnet that attracted migratory movements from many directions, which contributed to make Prato the third-largest city in central Italy and caused the uninterrupted urbanization of the plain extending from Florence to Pistoia. Up to the 1960s, the main contribution to filling Prato's labour demand was provided by medium-range immigration, coming from the countryside and the small towns around Tuscany. That migratory movement was gradually integrated by workers arriving from southern Italy, who became predominant during the 1970s. During the 1980s, the progressive drying up of southern immigration and the further reduced coverage of the lower segments of the labour market by the local population cleared the way for non-EU immigration, albeit in a context of a slower growing local economy and a diminishing number of manufacturing jobs. The new migratory influx concerned a large number of nationalities; these are currently more than 100, but in the 1990s the prevailing nationality was Chinese.

The Chinese immigration showed peculiar characteristics, both in quantity and quality, and, apparently paradoxically, grew stronger during the years when Prato's textile industry was experiencing economic hardships (after 2001). Chinese workers rarely sought employment in Italian-owned companies. Instead, they established a large network of small or very small firms where they manufactured knitwear and high-street fashion garments. The firms had a short average lifespan and employed Chinese personnel only, except for very few better-structured companies that also employed Italian executives (Guercini, Milanesi and Dei Ottati, 2013). Over the years, the Chinese-owned companies showed a tendency towards "ethnic vertical integration", buying subcontracting firms for garment processing and dyeing, supply firms in general (e.g. clothing accessories) or firms providing services to their businesses (consulting, IT, etc.) and community (commerce, personal services, etc.).

Hence, a sort of "parallel district" developed that established itself in the facilities vacated by the textile firms that were leaving the and that found legal grounds for their activities in the laws on immigration. However, a good portion of the Chinese presence could and can still be considered “irregular”, also because of the insufficient attention (before) and the scarce controls (after) provided by the appointed authorities. Thus, following a typically self-reinforcing process that was also enhanced by the common region of origin, the expansion of the Chinese community and entrepreneurial activity reached impressive levels, that rapidly and deeply affected the linguistic, cultural and physical features of large parts of the Prato area.

The following numbers may help to quantify the phenomenon. According to the most recent data available, 13.5% of the residents of the province of Prato are of foreign origin – the highest percentage among Italian provinces. In the city of Prato, 15% of the residents are of foreign origin, compared to a national average of 7.5% and to 10.6% and 10.2% in Lombardy and in the Veneto region (the two Italian regions having the largest number of foreign residents). In 1990, the number of Chinese residents in the city of Prato was 169; in 2012 it was 11,882. In June 2012, at the Chamber of Commerce of Prato the number of firms registered as having Chinese ownership was 4,830, representing a 180% increase in 10 years. These figures are amazing, even though they are limited to the “regularly resident” Chinese population only. If we also take into account the visitors who are present with a temporary residence permit, the Chinese population in Prato exceeds, in absolute value, every other Italian province including Milan. According to the latest available official data the Chinese nationals are more than 45,000 – the second largest Chinese community in Europe after Paris.

To date, the Prato district seems to have retained some of its main features (Dei Ottati, 2009):

- the ability to offer constant creativity and fast reaction times to the requirements of the market;
- the capacity to propose top-quality articles with a high fashion content appears consistent with the demands of market segments that seem to be progressively growing;
- the know-how and facilities in carded wool processing accumulated over the years do not seem vulnerable to the new competitors, given their modest importance in the

global fibre-processing sector (in general, wool represents 3% of global fibre production).
Regarding the business firms, the following aspects seem particularly critical: strengthening the relations between the sector companies (front-end firms/subcontractors), by improving long-term collaborations that might be further cemented through equity ties; applying stronger controls on the market, through directly-operated networks of distribution; the capacity to internationalize production facilities, when the opportunities are advantageous; strengthening and formalizing the capacity to invest in product development and innovation, and further improving processing time by dedicating more resources to the crucial ICT sector.

4.4.3 The organization of activities inside and outside the district

The business network of the company is represented downstream from the chains of distribution through which they sell abroad, the franchise store in Russia and the flagship stores in Italy. Upstream there are suppliers of raw materials, that are strategic for the company, localized in the Prato district and in the North of Italy, and suppliers of other suppliers such as garment makers, also strategic for maintaining quality standards. Among the main strategic suppliers of fabrics, there are: Lanificio Ferla, Lanificio Cerruti, Loro Piana, Ermenegildo Zegna, Reda, Botto Fila and Lanificio Ormezzano. The strategic suppliers are therefore under 10, while all of the suppliers are dozens (150-200, no one outside of Italy, 50% in the Province of Arezzo, 20% in the industrial district of Prato and in other areas in centre-south Italy, 30% in the North). In general, all suppliers are stable because Montezemolo depends strongly on the quality and identity of its products that must be maintained at high levels and constant in time. Although being strategic, suppliers are not involved in the creative process. Internally, the company makes the entire creative process that led to the elaboration of the collections, including modelling and the production of prototypes. The production of the finished product is outsourced to external firms s with which the company works for decades (those located in Arezzo and Prato). With these firms, namely garment makers, there is a close relationship and spatial proximity which result in the presence of Montezemolo’s employees at the garment maker to control the production process. The role of garment makers is so strategic that the planned growth of Montezemolo includes the acquisition of one of them to secure the control of upstream activities. The research of continuity, stability and control in upstream activities is also due to the fact that some firms are closing down because of the global economic crisis.

The presence is consolidated in Italy, with 11 stores, including 8 directly operated stores and 3 franchising (soon one of the franchising will be converted into a direct store). The direct supervision of the stores means to constantly receive input from customers, both in terms of possible improvements of existing products and as demands for new products not present in existing collections. The result is the combination of the two annual collections, autumn-winter and spring-summer, according to a planned model, with small collections every two weeks or monthly in the light of the demand, current trends o as a test for future collections. This results in a model in between the traditional planned model and fast fashion: the company uses exiting suppliers filling their production capacity e demanding for fast delivery time.

4.4.4 The internationalization process of the firm

The company is a typical SME in terms of size, turnover and culture. It's a family business that enjoys the benefits of being a SME but also the constraints, especially in internationalization. Going abroad for a SME is often random. One example is the internationalization of the firm in Russia. The Russian market has come out for the event, in the sense that it was not the subject of planning in terms of business strategy nor of market analysis at the level of macro and micro-economic indicators, such as consumption trends or cultural differences: "*We have all the data when we started working on it, so based on experience*". Montezemolo is associated with the Industrial Union of Prato and in 2002 it was created the Consortium Fashion Tuscany, of which Renzo Guazzini was President. Consortium aims to promote the sector, which includes companies of Prato and Pistoia operating in the clothing, knitwear and accessories for clothing. The Consortium has been working in particular on the Russian market, which for the sector is certainly one of the most interesting, both by opening a showroom and focusing on the "incoming" of Russian traders. The companies in the consortium, as a first approach, participated to the trade show Collection Premier Moscow in 2003 and in 2004, because in the last two editions of Pitti Uomo they saw an increase of Russian visitors interested in Italian products. After those experiences Montezemolo tried a second approach to the Russian market which failed, since the company was not able to sell products to local distributors, in particular multi-brand stores. Other negative experiences were at first with local agents who turned unprofitable. The passion of the entrepreneur for the Russian market, which translated into numerous trips and the establishment of personal and business relationships with local actors and institutions, allowed to open a subsidiary run by Italian management sent from Prato and to lease a location. In this operation, the company has benefited from its being small, in terms of dynamism, flexibility and the fact that it is not perceived as a threat or a potential competitor from local operators. The main difficulties encountered in the opening of the company in Russia were bureaucratic, in the management of customs rules and especially in misconduct and sometimes illegal behaviour by Russians involved in the operation. The first store Montezemolo was opened in Russia directly, without local partners, putting the company in a pioneering position with respect to the Italian scene at the time, when the first experiences in Russia by Italian companies, even large such as Armani and Prada , took place through local partners. The success of the first flagship store opened in Russia, in Moscow in 2006, has led the company to continue to invest in the market with the opening of other stores, particularly a second one in Moscow in 2008. The bond with Russia has resulted in other experiences, such as the supply of official uniforms to the teams from Russia and Ukraine during the Beijing Olympic Games in 2008. In 2010, the two stores in Moscow were closed to open one single larger flagship store. The main difficulty was in finding the suitable location, such as a space in a luxury shopping mall in the city centre, next to other major brand of Made in Italy such as Prada and Ermenegildo Zegna. The flagship store was a success, and in 2012 the company decided to invest again in the Russian market by opening a new store, again in Moscow, which proved to be a failure mainly due to the wrong choice of the location. The location chosen was in fact in a new shopping centre under construction on a road in rebuilding that was never finished, so the store was closed at the beginning of 2014.

The difficulties encountered in the Russian market were; the turnover of employees (both Italians, who often suffered the distance from the home country asking to return to Italy, both Russians, that normally do not have a strong attachment to the workplace changing frequently on the basis of the best remuneration); the Russian business culture, oriented to profits in the short term. In this sense, the main obstacle has been to establish and maintain relationships and trust with Russian businessmen, because the prevailing culture is oriented to the short term and to achieve an economic benefit to the expense of the counterpart and the continuity of the relationship in medium-long term: *"When you approach a business as complex as that of fashion for a SME, it's fundamental to build relationships and trust over time, which in our case it was not possible with Russian employees and partners".* In light of these difficulties, the company was sold to a local partner, a well-known importer of Italian brands met by the entrepreneur during one of his visits in Russia, and the directly operated flagship store has been converted into a franchising. The experience with the Russian market has been the most intense and complex in terms of the company's commitment, investment (in 2014, 8% of turnover invested in the operation in Russia and the opening/renovation of stores in Italy), and learning from experience.

Montezemolo also sells in other markets such as China, South Korea, Japan, Denmark, France, Switzerland, and recently also in Brasil, through indirect export. Intermediaries are mainly large chains of multi-brand stores. The first meeting with the buyers of these chains is through trade shows, particularly during the two annual editions of Pitti Uomo in Florence, where the two annual collections by Montezemolo are presented. The first meeting is usually very fast, a second meeting, where to define some details such as pieces to buy and prices, is done inviting buyers at the store in Milan. Relationships with buyers are spot and change from year to year. The only example of a relationship that has been established over time is the one with the Japanese buyers at the end of the 90s, when a group of Japanese buyers started to sell products branded "Sartoria del Corso" (the first name of the brand) in Japan and opened three flagship stores in franchising; with the simultaneous Japanese economic crisis, the shops were closed in a few years and so the relationship with the company.

The development of the company is aimed at the Chinese market, through a local distribution partner. The problem in opening stores in China is not economic: "*The main problem is people and relationships. A small company that lives on the know-how of the entrepreneur has the advantage that the entrepreneur knows the internal dynamics, but when he decides to make the leap, going abroad, he must rely on people. This implies a cultural leap by the entrepreneur who must learn to delegate, but he also needs people motivated and prepared. I've had bad luck in this until now"*. The company is too small to be interesting for a potential Chinese partner, even if the product, brand image and quality are suitable for that segment of the Chinese market in strong growth, which is the middle-class between 25 and 40 years. These consumers do not have the purchasing power to afford brands like Armani and Ermenegildo Zegna, among the most popular on the market. The product Montezemolo would thus fill a gap. To date the company has not managed to find a Chinese partner. Some elements related to the culture of Chinese business have a negative effect on the possibility of finding a partner, as the Chinese businessmen prefer a quick and secure return on investment focusing on well-known brand of Made in Italy and not in small companies that have a potential for higher growth but more in the long term. The lack of partners and the company's philosophy, which has always focused on direct stores, do favour the entrepreneur to a direct entry into the Chinese market, thus replicating the Russian experience. In this sense, the difficulty is in finding Italian staff willing to move to China.

In other words, the entrepreneur summarizes the main difficulties related to internationalization in the following categories: cultural differences, relationship difficulties, difficulties in managing logistics and customs rules, climatic differences that are relevant in clothing and imply the need to adapt product[24], difficult to spread

[24] For example, in Russia the soles of shoes should be made of rubber, not leather, to better resist to chemical substance normally used on the roads to melt the snow. This adaptation has been appreciated by the Russian customer in terms of comfort and it has been applied to footwear for all markets, including the Italian one. These are technical adaptations that have led to improvements of the product. Another example is given by the launch of a line of shoes in crocodile specifically for the Russian consumer. This line was not successful because it was not consistent with the brand image of Montezemolo, classic, elegant and sober, and because the consumer searches for Made in Italy and not for what is typically Russian. After this experience Montezemolo no longer has adapted its products to local tastes while maintaining consistency in the collections and the image of the brand and limiting adaptations to those of a technical nature.

an open mind to the international development among its employees[25]. In any case, cultural differences and difficulties in entering into a system of relations with local actors are perceived as prevalent, almost totalitarian, than the rest. In other words, the management of operational issues related to a foreign market, which may imply also costs such as customs duties, is not a difficulty in the process of internationalization of business with respect to the ability to manage the differences in the way to do business and, consequently, setting up lasting relationships with local actors that enable market penetration and development in the long run. Cultural differences exist not only with reference to the markets perceived as distant as Russia or China (still considered the market more culturally distant and more difficult to penetrate), but also with reference to the most famous markets such as the United States in terms of business practices.

The project of interactional development therefore includes the opening of directly operated stores. This also reflects a lack of confidence of the entrepreneur to find suitable local partners, to build long-term relationships with them, but also entrust the management of its brand to local distributors, both in China and in other countries. The opening of direct stores implies therefore also organic growth of the company with specialized personnel for each market in terms of spoken language, knowledge of local regulations, taxation and propensity to international mobility. Next step will be the entry into the US market, perceived as more stable and reliable than Russia and China.

[25] In this sense, the international development through the opening of direct flagship stores is hampered by the difficulty of finding Italians taff willing to move abroad.

Discussion of findings, limitations and future research agenda

The contribution of our work is threefold, by providing new insights on:

- the phenomenon of stores opening by firms in the fashion industry;
- liabilities in retail internationalization;
- business relationships and relevant interactions within retail internationalization.

The foregoing refers to firms in the fashion industry that combine manufacturing and retailing activities by opening retail stores abroad.

The first step of our study, exploratory in nature, aimed at analysing a phenomenon that seems to be under-investigated in the international management literature: the international expansion of firms through the opening of retail stores in foreign countries. The exploratory nature of the study allow us to provide some reflections for understanding the foreign expansion of firms through stores opening, which can lay the foundation for formulating future research efforts. The entity of the phenomenon observed empirically during the three years considered in the database reveals a number of interesting aspects in an area of study barely touched upon in the literature to date. Based on the findings described in the foregoing, we can advance some considerations on the phenomenon of stores opening.

As far as the country of brand origin is concerned, our results seem to be in line with those of other research in the field (Guercini and Runfola, 2014; Aiello and Guercini, 2010; Moore, Fernie and Burt 2000; Moore and Burt 2007). Fashion companies from Italy, France and the US have an active role in international markets in terms of number of openings and global spread of stores.

Secondly, our results have confirmed the importance of the direct control of foreign markets for companies in the fashion industry, and the fundamental role played by the store. These assumptions are reported by the prevalence of single-brand format, namely the self-standing store and the flagship store, on the other. As described in our analysis, this types of store perfectly reflect the evolution of fashion brand, no longer tied to the product but to a value proposition where the store plays a fundamental role in the representation and communication of brand identity. The development of self-standing stores and, in particular, of the flagship store, also aims to meet the growing demands for quality, service and to the need of consumers in terms of shopping experience. Moreover, a direct control allows to adopt a coordinated and coherent management of all elements of the marketing strategy the global arena.

As far as countries of destination are concerned, we have highlighted the role of emerging countries, particularly China and Russia that are destinations chosen by both large and small companies. This is partially explained by the high growth rates in emerging economies, but also by the prospects for growth in mature markets that are unlikely to return to pre-crisis levels. Emerging countries offer increasing opportunities represented by an increase in consumption and purchasing power, not only for the upper class but also for a growing middle-class. Emerging countries are relevant not only on the level of resource seeking but also on le level of market seeking. Understanding patterns of consumption in order to meet the specific needs of consumers in emerging countries is the main challenge for companies wishing to operate in these markets. These factors have prompted internationalizing firms to focus on channel strategy through the development of a retail network to enhance brand identity. By studying how the various retail formats are distributed in different countries, we see that there is not a substantial difference between mature and emerging markets: in general, the need for direct contact with customers, the control on store management and the role of store as a means of representation and communication of brand identity play a key role both in mature markets and in the emerging. The opening of retail outlets thus seems to represent a new way for companies to establish a presence in foreign markets deemed suitable during this crisis stage in the fashion industry and western markets in general. The search for greater proximity to the final consumer provides for a greater capacity to disseminate the brand. The opening of stores may thus be a way for companies to break into new markets, despite their being culturally and geographically distant, as are the emerging markets, for instance. This may be linked to the possibilities that establishing a retail presence abroad offers in terms of knowledge and skills acquisition. The opening of stores abroad is a particularly ambitious growth strategy, in particular for small and medium enterprises, as it involves the need not only to acquire new skills, in distribution, for example, but also to operate in a new, unfamiliar geographical and cultural setting. A possible explanation is that despite being difficult, such a step is, in any case, deemed necessary for the future survival of the firm.

Looking at store ownership, most flagship stores are fully owned and directly managed by the company, with the exception of a few cases in emerging markets where companies rely on local partners through franchising, licensing agreements or joint venture. Agreements with local partners concern both SMEs and large companies. The need for local partners to enter emerging markets refers to the concept of liability of outsidership and therefore the need to achieve a position of insidership to operate in foreign markets. In this sense, companies rely on business partners and their existing business network to enter the market, and overcome some of the difficulties attributable to the concept of foreignness.

With reference to the types of companies that open stores abroad, the analysis reveals that not only large, but also small firms can pursue growth through the establishment of a sales network in international markets. From the theoretical point of view, the empirical evidence stemming from our exploratory study on the Italian fashion system thus contributes to the literature on the internationalization of SMEs by adding the development of direct retail by brand-based enterprises, which has to date been essentially limited to study of the largest retailers. Study of the relation of firm size to internationalization should therefore open up new lines of research that call for close, specific examination. Moreover, it is possible to furnish some theoretical reflections, that will be further developed in the case analysis, in the light of the empirical evidence presented in the foregoing on the reasons underlying the decisions to enter a foreign markets through the strategy of stores opening. The empirical evidence seems to point to a widespread ongoing process of internationalization of fashion industry, in particular the Italian one, especially considering the number of companies and brands involved. The first hypothesis already highlighted concerns an attempt to respond to a structural crisis in the national system. A second hypothesis concerns the fact that growth through the opening of stores can favour more rapid internationalization in culturally distant markets where a strong retail presence may signify a strong foreign presence. From the theoretical point of view, therefore, studying the reasoning underlying retail growth strategies should begin by attempting to understand what advantages firms stand to gain by developing new retail channels and how such advantages can

outweigh the obstacles that firms, in particular SMEs, typically face in foreign markets.
Lastly, some considerations are due on the limitations inherent in the present study, which can also furnish some useful indications as to future work. Firstly, the empirical evidence presented here essentially concerns the retail growth processes observed over the period 2011-2013, three interesting years given the global economic crisis that has undermined the existence of many companies, but perhaps a period too short to understand possible trends. Although this has been useful to highlight some phenomena as yet unexplored in the literature, future research will have to try to measure just how widespread such phenomena have been in the past and if there has been a negative influence of the global economic crisis. In this sense, it will be interesting to extend the period for the last 10 years and to see: whether the number of companies and brands involved remains constant, or whether it rises or falls; whether the foreign presence of individual firms increases, or if, to the contrary, some foreign sale networks close down (in this sense, it would be significant to compare the number of closures to the number of openings); and finally whether the locations targeted for foreign presence change, and therefore which markets, mature or emerging at the country and city level, become more attractive to the retail expansion policies of small and medium enterprises. These all seem significant aspects worthy of specific future research that would help to identify trends in the long run. Secondly, the empirical evidence reported here is based on secondary research in Italian and French publications, that clearly are partial sources and partly influence the quality of the data collected, in terms of the positive correlation between country of brand origin, country of destination and origin of the publications. Future development of the research concerns definitely expanding the sources from which to collect data, including magazines of other nationalities. Thirdly, some of the considerations advanced, in particular those related to SMEs, are based on empirical evidence drawn solely from study of the Italian fashion industry. In this sense, future research should aim to check if any differences exist in retail stores opening between: fashion companies and companies in other market sectors that may also pursue growth through sales networks; the Italian fashion system and the fashion industries of other economically mature nations (e.g., France,

the UK, Japan or the USA). An in-depth study of companies from other countries, not only in terms of number of firms as in the foregoing, could determine just how far some reflections on the phenomenon under study can be generalized to the worldwide fashion industry, and how much is instead specific to the Italian case.

The case analysis allow us to further investigate reasons underlying the strategy of retail expansion, the difficulties related to this kind of operations that can be referred to the categories of foreignness and outsidership expressed in the literature and the business relationships, existing or new, activated in the process of internationalization.

The reasons for internationalization are given various names by different authors in the broader literature on internationalization, including “initiating and auxiliary forces” (Aharoni, 1966), “motives” (Alexander, 1995), “triggering cues” (Wiedersheim-Paul et al., 1978), “facilitating factors” (Treadgold and Gibson, 1989), “stimuli” (Leonidou 1998), “drivers” (Winch and Bianchi, 2006), and “antecedents” (Vida and Fairhurst, 1998). The reasons or drivers of retail internationalization have been categorised in various ways including push and pull factors (Alexander, 1997), proactive and reactive motivations (Wrigley et al., 2005) and internal and external drivers (Hutchinson et al., 2007; Vida and Fairhurst, 1998). What we consider to be an interesting finding of our research is the fact that reasons for internationalization are the same for large (Luisa Spagnoli and Stefano Ricci) and small companies (Montezemolo). The three cases show that the primary motivation underlying their decision to internationalize can be traced back to the category “commercial motives” identified by Hollander (1970), that is the desire to exploit the opportunities in an economic attractive foreign market. The interviewees view international growth as a part of their proactive business philosophy of continuously seeking out new opportunities for increased sales. The internationalization through stores opening in foreign countries is pursued independently from the consumption crisis in the domestic market, as a reactive motivation may suggest. The desire to move into foreign markets is essentially proactive in nature, driven by de desire to obtain profit growth through the exploitation of a trading formula believed to have international appeal, motivation that is also the basis of the fact that neither the format nor the products undergo substantial adjustments on foreign markets.

Contrary to what suggested by Alexander (1995), in the three cases analyzed motivations for international are stable over time, that is to say that "pull" factors, namely the desire to maximize the opportunities available on other countries, are significant from the beginning and not related to firm's experience and confidence in international involvement. Push factors including, for example, industry competition, economy, legislation, and domestic saturation, are not relevant in the three cases under study.

Existing studies have also noted that retailers and, in particular, smaller retailers more often internationalize to exploit a competitive or differential advantage (Simpson and Thorpe, 1996; Vida and Fairhurst, 1998; Williams, 1991). As Burt and Mavrommatis (2006, p. 398) note, "*an original concept or a unique and distinctive retail product, is the source of competitive advantage for global retailers*". The cases show that the strong brand identity, together with the "Made in Italy" that helps to strengthen the brand image in the perceptions of foreign customers, represents a key differential advantage in the internationalization process, especially for the luxury market (the case of Stefano Ricci). Although the company brand identity represents a crucial antecedent for international expansion, we found that the decision to internationalize also depends on key facilitating factors. Internal motives related to critical management factors have been confirmed in the international retailing literature that recognizes the significant role of the founder or entrepreneur in taking up opportunities for international expansion (Bell et al., 2004; Boter, 2003; Westhead et al., 2001). Indeed, more recently, the decision to internationalize has been defined as the entrepreneurial act of a manager (Crick et al., 2006). Previous research has highlighted the management factors of competence, international orientation, and global mind-set as key drivers of internationalization (Boter 2003; Fillis 2001; Nummela et al., 2004). The cases confirm the role of entrepreneur (Stefano Ricci and Montezemolo) and managers (Luisa Spagnoli) in taking-up opportunities in foreign markets. We found that the internal factors facilitating the international expansion of the firm are: global mind-set and international orientation of the entrepreneur and managers; previous international experience. With reference to the latter, we found that the international experience of the founder or decision maker had a significant impact on creating an awareness of international markets and opportunities, which propelled some of the firms into international markets early in the development of the business. In our cases, the international orientation of the founder Stefano Ricci has led the company to be international from the beginning and explore as pioneer distant markets such as China; the same goes for Luisa Spagnoli, one of the first Italian brands to open stores abroad, thanks to the proactiveness and innovativeness of the entrepreneur, and now thanks to the previous experience of the managers; finally Montezemolo, for which frequent trips to Russia and personal experience, and contacts with local actors, of the entrepreneur, as well as its openness, led to the opening in Moscow.

Likewise, we found that external factors support the decision to internationalize; these included business contacts in foreign markets; assistance and support in the domestic market (the Consortium for the expansion of Montezemolo in Russia). The role of business contacts, that be viewed as differential advantages and key promoters of international activity in both the initial and the subsequent phases of expansion in the decision to internationalize brings new insights into the field of international retailing, in which the resourcing of information on foreign markets often happens through contacts with external organizations to yield access to knowledge and experience absent within the firm (Vida et al., 2000). External organizations include agents in foreign markets and government and consultancy organizations.

In our study, business contacts and the process of market selection take on a different meaning. The international literature highlights the importance of systematically evaluating and selecting potential foreign markets (Brouthers and Nakos, 2005; Kumar et al., 1993; Rahman, 2003). The resulting process is deemed to be linear, logical, and non-recursive (Gillespie et al., 2007). According to Kumar et al. (1993), the process takes a three-stage approach: screening, identification, and selection. Rahman (2003) identifies a two-stage process based on the evaluation of market size attractiveness and market structural attractiveness. Moreover, little research exists concerning the selection of partners in international markets (Doherty, 2009). Therefore, a significant gap remains in existing research on the topic.

First of all, external organizations include primary potential business partners, in particular foreign distributors, to open stores with. Secondly, contact with these partners is done in two ways: the company is active in search for partners; potential partners directly contact the company. In the first case, it is the company that is active in the search for a partner, after selecting one or more markets with interesting business opportunities. In this case, the first step is the foreign market selection – but this process does not follow a logic of strategic analysis in stages, but it is often the result of perceptions of the entrepreneur and managers – followed by the search for partners that can be either new or chosen from the existing network of business and personal contacts. In the second case, the company is contacted directly by potential partners, who have known the brand at events such as trade shows, they perceive the value of the brand and want to start a collaboration with the company. In this second case, which seems to be prevalent among the companies analyzed, the target market is proposed directly by the foreign partner. In this sense, internationalization is driven by pull forces that are external to the firm, and it is not the result of a deliberate strategy implemented by the firm itself and/or pushed by entrepreneurial forces. The process of market selection thus doesn't follow a linear and logical process, considering market attractiveness as the main factor. The partner selection, when it's done directly by the firm, follows a strategic logic in which determining characteristics are: partner's knowledge of the local market and partner's relationships with local distribution networks; reputation; trust; sharing the same business approach and long-term strategy; shared understanding of the brand.

The findings from our empirical research reveal that the international expansion through stores opening abroad is related to company brand identity, is mostly proactive in nature, driven by the desire to exploit opportunities, considered as "pull" factors, available within foreign markets. The decision to expand in foreign markets through stores opening is triggered by internal factors, including the global mind-set, international orientation and previous international experience of the entrepreneur and managers. The external factors that facilitate the firm's decision to internationalize through stores opening are: assistance and support given by organizations in the domestic market; business contacts in foreign markets. The market selection is not a linear process and partners are selected directly by the firm only in few cases, following a strategic logic. These findings are in line with the circular view of our research framework, in which dynamics in business relationships can be the result of the internationalization process through stores openings or the starting point, and allow us to classify stores openings on the basis of the triggering factors and the underlying process:

- *Internal-driven openings*: the process of stores opening is driven by the desire to exploit opportunities in foreign markets; the decision is triggered by internal factors which are predominant over external factors; the process begins whit the selection of foreign markets considered suitable to the value proposition of the firm; unless it is decided to enter directly, the firm takes the initiative in searching for a foreign partner.
- *External-driven openings*: the process of stores opening is driven by the unsolicited initiative of a foreign partner; the decision is facilitated by external factors; the process begins with the potential foreign partners that comes in contact with the firm and proposes a business opportunity in a foreign country as target market for the opening. This type of process can be attributable to companies with a strong brand identity and brand awareness both in the domestic market and abroad, which become the object of interest of foreign potential partners.
- *Changeover-driven openings*: the process of stores opening is driven by the initiative of a multi-brand store that changes into a mono-brand store. The process begins with the firm that sell products to multi-brand stores abroad which gradually become loyal, until firm's product become the majority of the store assortment. The decision to changeover from a mono-brand to a multi-brand store is mainly reflected in franchising agreements or other forms of partnership. This type of opening often happen when the firm has reached a strong brand identity and is well-known among customers in the foreign country. The process leading to this kind of opening is the result of a long-term relationship between the firm and the multi-brand store, and is positive for the firm, which does not have to make efforts in finding foreign partners and benefits from a well-established store with customers already loyal to the brand.

On the basis of the cases analyzed and the review of the literature, it is possible to point out some aspects regarding the research questions corresponding to our research framework, focusing on liabilities and business relationships. Liabilities have been studied in relation to the establishment of a retail network in foreign markets, namely the opening of stores abroad by fashion firms.

Starting from the first research question – *RQ1: Which is the relation between LOF and LOO and how do they impact on internationalization process?* – we can put forward some reflections on liabilities of foreignness and outsidership and their impact on internationalization process. The elements proposed in the paper emerge from the narratives of the respondents, and their subjective perception is a limitation of the study, which is not oriented to assess the existence and extent of such elements, namely those related to foreignness. In other words, in our study the existence of elements related to foreignness is related to the perception of the respondents, based on their knowledge of the firm and their experience in internationalization processes, while we do not provide a measurement of foreignness as costs in which Italian companies incur in foreign markets if compared to local firms; we focus on sources of foreignness that may not be as easily identified, such as culturally driven aspects of the liability of foreignness.

The comparison between the companies from a particular country (Italy) and foreign markets in which it is the process of internationalization shows the richness of cultural identity and is intertwined with the role of partnerships. The history of the international growth of the companies under study is the answer to the problems of foreignness and outsidership that are not disjoint but addressed simultaneously.

The cases offer contents that highlight the different interconnections between liability of foreignness and liability of outsidership. For example, the fact that the potential new Russian partner should be achieved in specific locations, corresponding to the places attended by the rich Russian businessmen, as in the case of Stefano Ricci, shows the relationship between psychic distance and interaction process, so it is necessary to overcome psychic distance in order to carry out effectively the interaction process. The partnership with a partner is relevant not only to overcome the psychic distance to the market, but at the same time to build relationships, actual or potential, with other actors, such as local institutions, or with other potential partners. Similarly, the fact that without a local partner there is not the opportunity to enter psychically distance markets such as Russia or China shows that elements of foreignness can't be separated from elements of outsidership. In other words, the cases suggest that, as foreignness and outsidership can be conceptually separated, they must be addressed in combination.

From the above it becomes evident that becoming a member – insider – of a network, a firm may considerably quicken its internationalization skipping some stages of its internationalization process (for example, enter a market distance in terms of psychic distance or with directly operated stores).

The concept of outsidership appears to be complex and multidimensional. The IMP perspective on interaction and business network might provide useful insights in order to achieve a better understanding and a further development of the concept: (1) there can be outsidership in the absence of interaction between actors. In this sense, the absence, and therefore the need of interaction, is a source of outsidership, both in domestic and in foreign markets. (2) There can also be outsidership if the potential of the interaction is untapped. In this sense, processes of teaching and learning may not have been activated or not activate at all, remaining interaction an episode in itself, a tool to gain an insider position, without the creation of learning processes. The potential of interaction could not be expressed because of the timing factor, i.e. the limited time available to carry out activities and mobilizing resources; this could in turn generate disequilibrium between interactions and consequently outsidership. Following this line of reasoning, outsidership can be represented by two dimensions:

- Perceptive dimension: being outsider or insider depends on the individual perception; this dimension involves perception of actors and legitimization by counterparts in the relationship.
- Factual dimension: existence or absence of facts/episodes in the interaction process and/or untapped potential of interaction.

In an IMP perspective, interaction has been analyzed with respect to time: it has been argued that there is no such a thing as a new network. Ford et al. (2008) discuss that "…*If we recognise the existence of a particular network for the first time, then we are simply isolating part of a pre-existing and wider network. Similarly, neither a* *new actor nor a newly developed relationship creates a new network. Instead, new actors and new relationships always emerge from something that pre-exists them and there is always a history behind them. Each new actor or relationship is always related to others that already exist*" (Ford et al., 2008, p.16). Moreover, there is the issue of defining boundaries in the business network (Håkansson and Snehota, 2006). If it's not possible to determine the boundary of the network, then it's not possible to determine what's inside or what's outside the network itself. In this sense, we challenge the view of creating new networks (Schweizer, 2013) in order to overcome the liability of outsidership.

In conclusion, we find that the question of outsidership is one of perception, so we do not believe that liability of outsidership can be said to have a clear, world-wide, definition. An outsider believing he or she is an insider may act as such and an insider having the perception of being an outsider may act in the opposite way. The cases show that an initial step in the transitioning from outsidership to insidership might be represented by prior experience in internationalization, know-how of the market and personal and business relationships with actors in the sector. However, this type of initial insidership is limited in the sense that further relationships are needed to establish own business operations, following the interaction approach (i.e. the factual dimension of outsidership). As such, we recognize networking as the second step to overcome liability of outsidership, not in the sense of creating new networks but in the sense of leveraging on existing business relationships or creating new one in a business network context. How these relationships are established is highly erratic. That is because liability of outsidership does, too, have a different meaning and impact to different people and organizations. We do not believe that there can be a universal description of the term liability of outsidership as people and organizations are affected by it in different ways depending on past experiences, connections and sometimes coincidence. In the same way it has been shown that the ways in which liability of outsidership is overcome highly differs as well. In our research we have found examples of highly social interactions to a more pure form of business contacts to trade fair connections. In other words, we can observe that a vital part in the process is to create or make use of already existing inputs into essential networks and thereby create business opportunities that would not have been possible without an interaction process.

The second research question becomes more specific to the empirical context trying to investigate what are the liabilities arising in respect of stores opening and if the stores opening may be a way to overcome such liabilities:

RQ2. What are the main liabilities faced by firms that open stores abroad and which is the role of stores opening on the overcoming of liabilities?

While much international literature on liabilities relates to issues faced by multinational enterprises operating in multiple countries through foreign direct investments, little research has specifically focused on liabilities in retail internationalization.

The cases presented are emblematic of a business model based on "made in", high product quality and orientation to international markets, that is typical of the fashion/luxury sector, not only in Italy. The cases are linked to the growth of the upper class in the era of globalization, thus the "distance" in its different forms – cultural, psychic, geographical – is seen more as resource to enhance production with a particular national origin. In these cases, according to the contents emerging from the interviews, the liability of foreignness doesn't consist in additional costs (with the exception of logistics costs, customs costs and possible disadvantageous exchange rates) or discriminatory treatments, but manifests in elements of advantage of foreignness related to the value of the country of origin. In other words the specific country of origin, Italy, in a specific field, that of fashion in which Italy is one of the leading countries, mitigates the liability of foreignness and convert the liability into an asset that puts the Italian companies in a position of competitive advantage in foreign markets compared to local firms.

Only in one case (Montezemolo) the liability of foreignness manifests in terms of strategic fit resulting in the lack of fit between its transferred personnel policies and the Russian employees. This appears also in line with the study of Calhoun (2002) that focuses on cultural components of liability of foreignness distinguishing between external and internal environment. The internal firm environment in this case present a source of liability for the foreign firm. Liability of foreignness is experienced internally as the result of cultural differences involving employees. In this case, this type of foreignness has inhibited the continuation of the process of internationalization and has meant a return to forms of presence in the foreign market characterized by a lower level of investment and commitment, namely the franchising. In this case, the effect of liability of foreignness might be combined to another liability, namely the liability of smallness. The study of foreignness and smallness in the internationalization of SMEs in the fashion industry can represent a further development of the research.

The main liability in the opening of retail stores abroad seems to be outsidership, that is realized in the absence of interaction with local distribution partners that may prevent the opening of retail stores. Again, elements outsidership overlap with elements of foreignness in the sense that the relationship with a local partner allows both to manage cultural differences between countries, to learn the local business practices and gain experience in the foreign context, and to acquire a position of insider in order to independently continue the market penetration. Each store is characterized by its embeddedness in local cultures and consumption habits and is potentially an autonomous centre, embedded in and necessarily shaped by a unique place. In the retail store, foreignness and outsidership coexist. The embeddedness in culturally diverse contexts reveals the typical elements of foreignness, not only cultural differences terms but also in terms of legislative and additional costs, e.g. customs costs: these are all elements that, however, are not perceived as an impediment to the process of internationalization and partly are solved thanks to local partners. The difficulty of taking a position of insider in the foreign market is rather perceived as overwhelming, especially for those countries, as emerging countries, perceived distant in terms of psychic distance. The relationship with local partners allows to leapfrog stages of internationalization and enter directly with a retail store that implies high risk/high commitment. Moreover, psychic distance doesn’t seem to impact on market selection, since in all cases geographically and culturally distant markets are selected from the beginning of the process of international expansion of firms for their attractiveness and business opportunities, despite the perceived distance and associated risk. Each store has a positive impact in overcoming liabilities of foreignness and outsidership. Although relying on local partners, the firm carries a high degree of control on the store, thus generating processes of learning and gaining experience. So not only the store reduces the psychic distance, but allows to acquire a position of insider, the ability to recognize more business opportunities in that market, and thereby to continue the international development independently, without having to rely on third parties. In summary, the store is on the one hand a fertile ground for the emergence of liabilities, given its embeddedness in distant contexts, but also the starting point for overcoming liabilities in the internationalization process. This is in line with the circular nature of our research framework.

Finally, the third research question concerns business relationships related to the process of internationalization of selling markets with the opening of stores:

RQ3. How do stores opening impact on business relationships and vice versa?

The literature suggests that the social and business networks the decision maker forms are not only potential catalysts for international expansion, (Coviello and McAuley 1999; Merrilees et al., 1998) but also facilitators of the foreign expansion process (Zain and Ng 2006). In particular, strategic networking can overcome internal resource deficiencies (Westhead et al., 2002), yielding access to knowledge and experience absent within the firm (Rutashobya and Jaensson, 2004), which provides the firm with both the opportunity and the motivation to internationalize. The ability to develop networking capabilities and successfully access the appropriate resources at the right time can cause firms to leapfrog stages of international development. The cases show that business relationships with distribution partners allowed to develop internationally through retail outlets, that imply a high involvement and resource commitment. Moreover, business relationships with foreign partners allowed to internationalize in distant markets, geographically and culturally, for which the knowledge of the company was poor, and in early stages of the process of international development (e.g. the opening of Stefano Ricci in Shanghai and the first store of Luisa Spagnoli in Iran). We maintain that formal relationships developed within the business networks, facilitate the decision to internationalize. The main actors are partners with whom to open stores abroad. The business partners have been considered as strategic resources in dealing with foreign markets, especially those perceived as “distant” by the entrepreneur and decision makers such as emerging markets. The cases show how business relationships can help the firm in acquiring knowledge on the market and sustain the creation and the development of new relationships. In other words, for the purposes of internationalization through stores opening the role of interaction is fundamental. In particular, the analysis of the cases show how the actors' interactions in the business network have played a significant role in the process of internationalization. These actors have played the role of "gatekeepers" in helping the firm to expand internationally. Only in one case, contacts with local organizations informal relationships facilitate the decision to internationalize (i.e. in the case of Montezemolo, being part of a consortium and the friendship links of the entrepreneur in Russia allowed the opening of the first store in Russia and the entry to Japan); this can be related to the size of the firm, according to the literature on SMEs in which networking activity driving the decision to internationalize can range from friendship and family links offshore to contacts with business and government organizations (Coviello, Ghauri, and Martin 1998; Zhou et al., 2007; Ojala, 2009).

The process of expansion calls for the closure of some relationships and the development of new interactions and business relationships, modifying the firm's business network. If on one hand business relationships impact positively on the possibility that the firm has to open stores, by acting as facilitators for entry into markets geographically and psychically distant, on the other hand the openings of retail outlets impact on upstream relationships with suppliers. The cases analysed show how the firm's stores openings in foreign markets have an impact on the traditional way of doing the business. Each store require: careful quality control; constant replenishment to avoid stock-outs; personalized services such as custom-made, especially in the case of luxury products; activities of listening in order to gather feedback and promptly satisfy the needs of customers. The combination of these factors has an impact on the way of doing business and the management of relationships with upstream suppliers. Two cases (Montezemolo and Luisa Spagnoli) show a partial change of the business model of the firms, from a traditional planned model to a model more oriented to fast fashion with capsule collections presented in stores monthly. This change has happened in response to the demand of innovativeness from customers that prefer to find new products regularly in stores, and results in the fully exploitation of the production capacity of existing suppliers

and in quick delivery times.
The analysis of the cases shows a re-thinking process activated by firms in managing the international expansion and the sourcing side. The cases described outline how the process of internationalization in terms of selling markets, with the opening of stores, has changed and actually is changing the network of relations within which firms are engaged. Firms have adapted their business network to better serve new selling markets. Some relationships, for which delivery times and quality standards were not respected, have been closed (e.g. Stefano Ricci and a supplier of coats that wasn't able to ensure rapid delivery times for bespoke tailoring; Luisa Spagnoli and a supplier of embroidery in India). Other relationships have been enhanced, in particular those of historical length and with local suppliers. The cases show a tendency to strengthen relationships with local suppliers of manufacturing services (cutting, sewing, ironing and packaging), in the industrial district or in the surrounding areas, and national suppliers of fabrics (weaving and finishing). The relationships become so strong that the company's staff regularly visits suppliers of manufacturing services to monitor the manufacturing process. The strengthening of these relations aims at increasing the degree of control on suppliers in order to ensure the continuous monitoring of quality standards and delivery times. Thus companies search for stable and lasting relationships that ensure the quality and control of supply rather than cost advantages. Moreover, while the supply chains of Stefano Ricci and Montezemolo are entirely in Italy, Luisa Spagnoli is bringing back in Italy some phases of the supply chain in order to monitor the quality standards. This phenomenon is called re-shoring, namely the tendency to bring manufacturing back to suppliers in the country of origin of the firm, and could be an interesting future development of research with reference to the relationship between retail and supply chain for textile-apparel firms. The need for control can reach such levels that firms prefer to bring back in-house some strategic activities of the supply chain that had been outsourced. In the cases analyzed firms implement vertical integration strategies through external growth (e.g. the acquisition of garment makers by Montezemolo and Stefano Ricci and the acquisition of a supplier of fabrics by Stefano Ricci) and internal growth (e.g. the endowment of a department of 18 people for the production of tailored suits). The result is a complex organizational structure vertically

integrated that combines retailing and manufacturing activities. In this sense, the opening of stores abroad has an impact on “make or buy” decision. In summary, the process of internationalization in terms of selling markets, with the opening of stores implies an adaptation of the business network and changes in the network of relationships in which firms are embedded in terms of:

- development of new relationships, i.e. with foreign business partners;
- closure of existing relationships;
- enhancement and stabilisation of existing relationships with strategic suppliers;
- vertical integration through organic growth or external growth by acquisitions.

The findings of this study have several implications for international marketing managers. The study suggests that the opening of stores in foreign markets is a pervasive phenomenon that should not just be the preserve of large companies, but that should be taken into consideration by entrepreneurs and managers of SMEs in the fashion industry. The experience of the companies under study suggests the need to rely on local partners for entry into foreign markets, especially emerging ones. Managers should consider, however, after entry, the possibility to continue the growth in the target market directly, by directly operated stores, which imply a higher investments but also ensure a high degree of control in order to gain experience to reuse in other markets and maintain high levels of quality and a globally consistent brand image. The findings of the current study suggest that if firms prioritize long-term strategic effectiveness, a greater degree of commitment to and control over the foreign operation is important.

Marketing managers should not always look for the markets that are most similar to their home market because in psychically distant markets, the firm may face less direct competition, have a greater ability to differentiate, and can capitalize on a growing market. In this sense, elements typically related to the liability foreignness may turn into assets of foreignness at the basis of a competitive advantage on local firms. In other words the specific country of origin, Italy, in a specific field, that of fashion in which Italy is one of the leading countries, mitigates the liability of foreignness and convert the liability into an asset, even reducing the need to adapt the retail offer for international markets, with positive implications on the overall cost of the opening. Finally, entrepreneurs and managers should seek stability in the supply chain by strengthening interactions with strategic suppliers and closing relationships with suppliers that are not able to maintain high quality standards. In contrast with the past trend to outsource stages of production to local and foreign suppliers, companies should reconsider to bring in-house some activities in order to better respond to the needs expressed by retail stores and ensure alignment between manufacturing and retailing activities.

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